

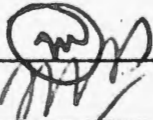
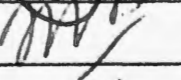
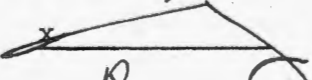
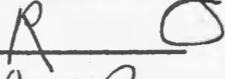
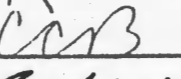
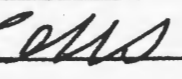
Minutes for March 6, 1959.

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. 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 Friday, March 6, 1959. The Board met in the Board Room at 10:00 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. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Noyes, Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Leavitt, Supervisory Review Examiner,
Division of Examinations

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

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

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	<u>Item No.</u>
Letter to Bank of America, New York, New York, consenting to the establishment of an additional agency in Naples, Italy, by Banca d'America e d'Italia. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to the Union Trust Company of Wildwood, N. J., Wildwood, New Jersey, approving the establishment of a branch at Park Boulevard and Hildreth Avenue. (For transmittal through the Federal Reserve Bank of Philadelphia)	2
Letter to the Industrial National Bank of Miami, Miami, Florida, denying its request to maintain the reserves required for banks located outside of central reserve and reserve cities. (For transmittal through the Federal Reserve Bank of Atlanta)	3
Letter to the State-Planters Bank of Commerce and Trusts, Richmond, Virginia, approving the establishment of a branch at 1101 Azalea Avenue. (For transmittal through the Federal Reserve Bank of Richmond)	4
Letter to the Federal Reserve Bank of Chicago authorizing cancellation of stock in the Reserve Bank held by The Veedersburg State Bank, Veedersburg, Indiana, incident to the bank's withdrawal from membership.	5
Letter to the First State Bank of Westminster, Westminster, Colorado, approving its application for membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of Kansas City)	6
Letter to the Federal Reserve Bank of New York regarding a possible statutory violation involved in investment by J. P. Morgan & Co. in a corporation organized to serve as a nominee in the transfer of securities. <u>1/</u>	7

1/ It was understood that the Board's staff would check with the Office of the Comptroller of the Currency regarding the status of a legislative proposal understood to be under consideration by that Office which would have the effect of permitting a member bank to organize and invest in the stock of a nominee corporation.

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Boston approving a payment not to exceed \$10,000 for services of special counsel in connection with a section 13b matter.	8
Letter to City Bank, Detroit, Michigan, approving its application to establish a branch in Dearborn Township. (For transmittal through the Federal Reserve Bank of Chicago)	9
Letter to the Senate Banking and Currency Committee with respect to S. 860, a bill "To amend section 19 of the Federal Reserve Act with respect to the use of vault cash holdings as required reserves against deposits." (With a copy to the Bureau of the Budget)	10

The letter to the Senate Banking and Currency Committee on S. 860 (Item No. 10) was approved in a form reflecting minor changes in the draft of letter that had been distributed to the Board. Whereas the draft indicated that the Board would prefer enactment of S. 1120, the reserve requirement bill proposed by the Board, the approved letter stated that the Board favored enactment of that bill rather than S. 860.

In this connection, Governor Robertson stated that in his view it would be better to obtain legislation permitting vault cash to be counted as part of a member bank's required reserves than no legislation at all. It would be even better to have vault cash legislation plus provisions enabling the Board to make exceptions to the ordinary reserve requirements for individual banks on the basis of the character of business conducted rather than geographical location, but he still did not favor the provision in the bill suggested by the Board which would reduce

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the maximum reserve requirement for central reserve city banks to the same percentage as for reserve city banks.

Messrs. Hexter and Goodman then withdrew from the meeting.

Old Kent Bank and Trust Company. In reference to the suit pending in the United States District Court for the District of Columbia filed by Old Kent Bank and Trust Company, Grand Rapids, Michigan, against the Board, there had been distributed to the Board on March 4, 1959, drafts of (1) the Board's Opposition, with the supporting Memorandum of Points and Authorities, to Plaintiff's Cross Motion for Summary Judgment, and (2) the Board's Reply to the Memorandum filed, amicus curiae, by the National Association of Supervisors of State Banks.

A memorandum from Mr. Hackley distributed to the Board under date of March 5, 1959, stated that the time within which the Board might file Opposition to the Plaintiff's Cross Motion and a Reply to the Association's Memorandum would expire on Monday, March 9. The United States Attorney's Office had requested that drafts of the Board's Opposition and Reply be available no later than Wednesday, March 4, and the Department of Justice had set a similar deadline. Therefore, copies of the drafts distributed to the Board on March 4 had also been sent to the United States Attorney's Office and to the Department of Justice. It was suggested that the Legal Division be authorized to have the United States Attorney's Office file the Opposition and Reply, with the understanding that the Board would be advised of any changes subsequently made.

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Following comments by Mr. Hackley, the Opposition and Reply were approved for filing as drafted.

Other litigation. Mr. Hackley reported that The Michigan Bank Detroit, Michigan, had filed with the court this week a motion to dismiss its suit against the Board. The bank's stockholders had authorized the sale of additional common stock in the amount of \$1 million and this sale would comply with the condition fixed by the Board last year in approving the establishment of two branches applied for by The Michigan Bank.

As to the suit brought by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, an extension of time until May 1, 1959, had been granted for the Board to file its reply with the court.

Messrs. O'Connell and Conkling then withdrew from the meeting.

Mercantile Trust Co. of St. Louis (Item No. 11). Pursuant to the understanding at yesterday's meeting, there had been distributed a revised draft of letter to the Chief of the Washington Bureau of the St. Louis Post-Dispatch in reply to certain questions he had raised regarding business transactions of the Mercantile Trust Co. of St. Louis, Missouri, formerly the Mercantile Commerce Bank and Trust Company.

The revised draft was discussed and a rearrangement of the contents was decided upon, along with deletion of certain parts of the draft explaining the principle of nondisclosure of unpublished information

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regarding the affairs of a particular bank. Unanimous approval then was given to a letter in the form attached as Item No. 11, with the understanding that a copy would be sent to the President of the Federal Reserve Bank of St. Louis.

During the foregoing discussion Mr. Thomas, Economic Adviser to the Board, entered the room.

Testimony on bank merger legislation and reserve requirements.

Chairman Martin reported that the Senate Banking and Currency Committee had tentatively scheduled testimony by the Board on bank merger legislation for March 18, 1959. He suggested that in his absence Governor Robertson testify on behalf of the Board concerning bank merger legislation and Governor Balderston testify with respect to reserve requirements.

Governor Robertson presented for the Board's consideration the question whether his dissenting opinion on the application of First-america Corporation, recently decided under the Bank Holding Company Act, might give rise to such developments at the hearings as to make it more desirable for some other member to represent the Board. However, after discussion of this point, it was agreed that Governor Robertson would appear on behalf of the Board.

Secretary's Note: Chairman Martin later left the meeting to keep an appointment with Chairman Robertson of the Senate Banking and Currency Committee. He returned from this appointment while the meeting was still in session and reported

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having advised Senator Robertson that Governor Robertson would testify concerning the bank merger legislation and that Governor Balderston would represent the Board at the hearings on proposed legislation with respect to reserve requirements.

During the foregoing discussion Mr. Young, Director, Division of Research and Statistics, entered the room.

Hearings on administered prices. Chairman Martin reported that a letter dated March 4, 1959, had been received from Chairman Kefauver of the Senate Subcommittee on Antitrust and Monopoly formally requesting that Mr. Young appear before the Subcommittee on March 10, 1959, in connection with hearings on administered prices and inflation.

Chairman Martin withdrew from the meeting at this point in order to keep an appointment with Senator Robertson. Before leaving, however, he referred to the consideration being given by the Board currently to possible tightening of the withdrawal-substitution rule and amendments to increase the effectiveness of Regulation U. He stated that whatever might be decided upon by the other members of the Board in those respects would be agreeable to him.

Messrs. Thurston, Shay, Hostrup, Nelson, and Leavitt also withdrew at this point.

Study of Government securities market (Item No. 12). Mr. Young reported that discussion with the Treasury Department had resulted in tentative agreement on a form of statement to be handed to the press

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today for release in the morning papers on Monday, March 9, 1959, with respect to the joint Treasury-Federal Reserve study of the Government securities market. He then read the proposed press statement and certain suggestions were made which it was understood Mr. Young would present to the Treasury for consideration.

In this connection, Mr. Young said that a question had arisen as to whether the study outline should be attached to the statement released to the press. In view of the fact that copies of the outline were to be sent today to various individuals by the Board and also by the Treasury, it was felt by Mr. Young that the situation might provoke questions from the press.

The members of the Board expressed agreement with Mr. Young's position that it would be preferable to furnish the outline to the press along with the statement on the study. It was understood, however, this would not be made a matter of issue if the Treasury had strong views.

The statement issued later in the day was in the form attached as Item No. 12. Copies of this statement were sent over the signature of the Secretary of the Board to the Chairmen and Presidents of all Federal Reserve Banks and to the members of the Federal Advisory Council along with an outline of the technical study and the text of the letter being sent to a representative list of individuals qualified to comment on the Government securities market.

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Possible amendments to Regulation U. At the meeting yesterday the Board gave consideration to a memorandum from Mr. Solomon dated February 27, 1959, which, in addition to setting forth possible amendments to Regulation T and U which would provide a "percentage" withdrawal-substitution rule in both regulations, submitted possible amendments designed to increase the effectiveness of Regulation U.

After considering at some length the arguments for and against requiring an affirmative statement from the borrower as to the purpose of a loan secured by stock rather than a "nonpurpose" statement, it was the conclusion of the Board that the nonpurpose statement should be continued, but with the additional provision that there must be placed on file a statement signed by an officer of the lending bank regarding the basis for accepting the borrower's statement. This would be accompanied in Regulation U by a provision stating that the bank must, among other things, be alert to the circumstances surrounding the loan and the borrower and must diligently investigate any information that would put a reasonable man upon inquiry.

The Board then considered amendments suggested in Mr. Solomon's memorandum with respect to other matters, including the definition of "carrying" in section 3(b)(1) of Regulation U, loans not secured by stock, loans to exempt lenders, reports from unregulated lenders, loans to buy convertible bonds, and loans arranged by brokers. In each instance the proposal contained in the memorandum was tentatively accepted.

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During the discussion Chairman Martin returned to the meeting.

With respect to procedure, it was understood (1) that Mr. Solomon would prepare for the Board's consideration as soon as possible a statement explaining in layman's language the nature and intent of the changes in the withdrawal-substitution rule and the other amendments to Regulation T and U; (2) that Mr. Solomon would also submit for the Board's review the exact language of the amendments to Regulations T and U as they might be published in the Federal Register; (3) that he would get in touch with the staff of the Securities and Exchange Commission to obtain comment from that source; and (4) that if the Board decided to publish the proposals in the Federal Register for comment, arrangements would be made for appropriate communication with the Federal Reserve Banks, the New York Stock Exchange, the American Stock Exchange, the Federal Advisory Council, and other interested parties within and outside of the Government.

Bank holding company legislation. Chairman Martin reported having received an indication from the Chairman of the Senate Banking and Currency Committee that the latter did not intend to take the lead in holding hearings at this session on the amendments to the Bank Holding Company Act suggested by the Board last year. This meant that hearings, if any, would have to be initiated by the House Banking and Currency Committee.

3/6/59

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Appointment of Mr. King. Chairman Martin stated that the Senate Banking and Currency Committee had scheduled a hearing on Wednesday, March 11, 1959, at 10 a.m. regarding the appointment by the President of the United States of Mr. G. Harold King, Jr., of Canton, Mississippi, as a member of the Board of Governors for the unexpired portion of the term ending January 31, 1960.

The meeting then adjourned.

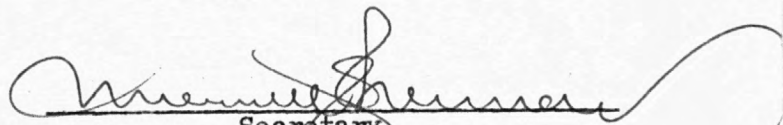
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memoranda from Mr. Marget, Director, Division of International Finance, dated March 3, 1959, recommending increases as indicated in the basic annual salaries of the following persons in that Division, effective March 8, 1959:

	<u>From</u>	<u>To</u>
Katherine P. Hichborn, Secretary	\$4,790	\$4,940
Nyart S. Sharigan, Secretary	4,790	4,940

Memorandum from Mr. Noyes, Adviser, Division of Research and Statistics, dated March 5, 1959, recommending an increase in the basic annual salary of Elizabeth Anne Pike Ulrey, Economist in that Division, from \$7,750 to \$8,330, effective March 8, 1959.

Letter to the Federal Reserve Bank of Philadelphia approving the appointment of William M. McHale as assistant examiner. A copy of the letter is attached as Item No. 13.


Secretary

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

Item No. 1
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.

Bank of America,
40 Wall Street,
New York, New York.

Gentlemen:

In accordance with the request and on the basis of information furnished in your letter of February 9, 1959, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the establishment of an additional agency in Naples, Italy, in the Via dei Mille district, by Banca d'America e d'Italia, Milan, Italy, subject to the conditions contained in the Board's letter of September 12, 1957, granting consent to the purchase of shares of Banca d'America e d'Italia, and the further condition that, unless the agency is actually established and opened for business on or before March 1, 1960, all rights granted hereby shall be deemed to have been abandoned, and the authority hereby granted shall automatically terminate on such date.

It is understood the Italian authorities have issued a license for establishment of the agency.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the agency is established and opened for business, furnishing information as to the exact location of the agency. It is understood that no change will be made in the location of the agency after establishment without the prior consent of the Board of Governors.

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. 2
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.



Board of Directors,
Union Trust Company of
Wildwood, N.J.,
Wildwood, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the intersection of Park Boulevard and Hildreth Avenue, Wildwood, New Jersey, by Union Trust Company of Wildwood, N.J., Wildwood, New Jersey, provided the branch is established within one year from the date of this letter and approval of State authorities is in effect as of the date of the establishment of the branch.

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. 3
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.

Mr. M. J. Franco, President,
Industrial National Bank of Miami,
Miami, Florida.

Dear Mr. Franco:

The Federal Reserve Bank of Atlanta and the Board of Governors have reviewed your letter of February 4, 1959, requesting permission to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities.

The Board and the Federal Reserve Bank of Atlanta have given sympathetic consideration to your application. In view of the proximity of your bank to the other reserve city banks in Miami and, since Section 19 of the Federal Reserve Act requires that, to be eligible for such permission, a bank must be "located in the outlying districts of a reserve city or a territory added to such a city by the extension of its corporate charter," the Board has no present basis for granting your request.

The Board has requested legislation, and the Chairman of the Senate Banking Committee introduced a bill on February 19, which would permit the Board to lower the requirements of member banks on the basis of the character of the business transacted rather than on their location. Should this legislation be enacted, the Board would, of course, reconsider your bank's application and those of other banks in similar situations.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.



Board of Directors,
State-Planters Bank of Commerce and Trusts,
Richmond 14, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of a branch by State-Planters Bank of Commerce and Trusts at 1101 Azalea Avenue in Richmond, Virginia, provided the branch is established within one year from the date of this letter.

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. 5
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 6, 1959.

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

Reference is made to your letter of February 19, 1959, enclosing a letter dated February 11, 1959, from The Veedersburg State Bank, Veedersburg, Indiana, which includes a copy of a resolution of the board of directors of the bank signifying its intention to withdraw from membership in the Federal Reserve System at the earliest possible date.

It is noted that the bank has been advised that at the time of expiration of the six-month period it should forward its certificate of stock together with its certificate of membership to the Reserve Bank. Accordingly, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon. Please advise when cancellation is effected and refund is made, and forward the certificate of membership to the Board.

State banking authorities should be advised of the bank's proposed withdrawal from membership, and the date such withdrawal becomes effective.

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. 6
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.

Organization Committee,
First State Bank of Westminster,
Westminster, Colorado.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application made on behalf of First State Bank of Westminster, Westminster, Colorado, for stock in the Federal Reserve Bank of Kansas City, effective if and when the bank opens for business under appropriate State authorization, subject to the numbered conditions hereinafter set forth:

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.
3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than \$206,000, and other capital funds of not less than \$144,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, as amended effective September 1, 1952, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 7 thereof. A copy of the regulation is enclosed.

First State Bank
of Westminster

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If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's Certificate of Authority to Commence Business has been issued. The board of directors should also adopt, at the same time, a resolution ratifying the action which has been taken in the bank's behalf in making application for membership in the Federal Reserve System. A certified copy of each resolution, together with advice of compliance with the provisions of condition numbered 3, should be transmitted to the Federal Reserve Bank of Kansas City. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 90 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 7
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 6, 1959.

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

Dear Mr. Wiltse:

It has come to the Board's attention that J. P. Morgan & Co. Incorporated, organized on August 13, 1957, Klemann Corp. for the purpose of acting as a nominee corporation to hold securities for clients of J. P. Morgan & Co. Incorporated. During the creation of Klemann Corp., there were, of course, certain organizational expenses incurred by either the bank or parties acting on behalf of the bank, and presumably some consideration was paid for the stock of the corporation. While the stock is not carried at any value on subject bank's books, a violation of Section 5136 may be involved if it was purchased for a stated amount or if the corporation's organizational expenses were paid by the bank, for such absorption of expenses would, in effect, be the same as if the bank were to invest in stock of the corporation, which would then pay its own expenses.

As you know, Section 5136 of the Revised Statutes, which is applicable to State member banks, provides that "except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association [national bank] for its own account of any shares of stock of any corporation." The words "hereinafter provided" refer to a provision in the same statute dealing with the investment in the capital stock of a corporation conducting a safe deposit business. Any other investment in corporate stock must be "otherwise permitted by law," and permission is found in such statutes as Section 24A of the Federal Reserve Act, relating to investments in the stock of corporations holding the bank premises, and Section 25 of the Federal Reserve Act, pertaining to investments in the capital stock of banks or other corporations principally engaged in international or foreign banking.

Mr. R. B. Wiltse

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The Board is aware of no provision of law permitting a national bank or a State member bank to invest either directly, or indirectly through the medium of absorbing organizational expenses, in the stock of a corporation organized to serve as a nominee in the transfer of securities. It would appear a violation of Section 5136 exists, in this instance, if the bank did invest in stock of Klemann Corp. in either of the ways mentioned. It will be appreciated if you will notify the bank of the Board's opinion with respect to this matter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

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Item No. 8
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.



Mr. J. A. Erickson, President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Erickson:

In reference to Mr. Schlaikjer's letter of February 27, 1959, requesting the Board's approval of the employment of special counsel in connection with the Littlefield Lumber Company, Inc. matter, you are advised that the Board has approved the payment by the Federal Reserve Bank of Boston of a sum not to exceed \$10,000 for such special counsel services. It is assumed that this matter has the approval of the Board of Directors of your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1959.



Board of Directors,
City Bank,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment of a branch in the vicinity of Ann Arbor Trail and Evergreen Road, Dearborn Township, Wayne County, Michigan, by City Bank, Detroit, Michigan, provided the branch is established within six months from the date of this letter and approval of the State authorities is in effect as of the date of the establishment of the branch.

This approval is given with the understanding that management of the bank will use its best efforts to obtain authority at the stockholders' meeting in January 1960 and proceed to increase the capital of the bank at least \$1,000,000 through the sale of additional common stock.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
3/6/59

OFFICE OF THE CHAIRMAN

March 6, 1959



The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of February 3, 1959, requesting a report with respect to the bill S. 860 "To amend section 19 of the Federal Reserve Act with respect to the use of vault cash holdings as required reserves against deposits."

This bill would amend section 19 of the Federal Reserve Act to authorize the Board of Governors by regulation to permit member banks to count all or part of their currency and coinage as reserves required to be maintained under that section. Such an amendment, along with certain other amendments to the reserve provisions of present law, was recommended by the Board in the last Congress and again recommended in my letter to Senator Fulbright of January 22, 1959. The Board's recommendations, however, have covered, not only a provision for counting vault cash, but also provisions under which (1) the Board would be authorized to permit individual member banks in any part of a reserve or central reserve city to carry reduced reserves on the basis of the character of their business and irrespective of geographic location, and (2) the maximum and minimum reserve percentages for central reserve city banks would be fixed at 20 per cent and 10 per cent, instead of the present 26 per cent and 13 per cent. The reasons for these recommendations were set forth in the explanatory statement enclosed with my letter to Senator Fulbright of January 22, 1959. A copy of that statement is enclosed for convenient reference.

The amendments proposed by the Board, including the vault cash amendment, were incorporated in the bill S. 1120 which was introduced by you on February 19, 1959. The various features of those amendments are related to each other, and the Board believes it is desirable that they be considered together, rather than separately. Accordingly, the Board favors enactment of the bill S. 1120, rather than S. 860.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.,

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
3/6/59

OFFICE OF THE CHAIRMAN

March 6, 1959.

Mr. Raymond P. Brandt,
Chief, Washington Bureau,
St. Louis Post-Dispatch,
1028 Connecticut Avenue, N. W.,
Washington 6, D. C.

Dear Mr. Brandt:

This is in response to your letter of February 28, 1959, requesting answers to four questions concerning certain business transactions of the Mercantile Trust Company of St. Louis (formerly the Mercantile Commerce Bank and Trust Company), a member bank of the Federal Reserve System.

Your first two inquiries ask whether certain communications passed between the Board and Mercantile Trust Company. If that information is relevant to the current litigation involving that bank, to which you refer in your letter, it can presumably be obtained by the court from the bank itself as a party to the litigation.

Banks are unique institutions. Unlike other kinds of corporations, they receive from the public deposits that are repayable on demand. Because of the large amounts of demand liabilities of banks, both a particular bank and the public interest could be seriously and lastingly damaged by public misunderstanding regarding the bank - even though the misunderstanding might be temporary in character and might be such that it would be of no consequence if it involved any other kind of business.

If a bank supervisory agency declined to supply information about a specific bank only when the information was considered likely to reflect on the bank or be misunderstood, it would, of course, immediately point the finger of suspicion at the bank in each such case. Therefore, the Board and other Federal bank supervisory agencies have found it necessary in the public interest to follow the general principle of nondisclosure as to unpublished information regarding the affairs of a particular bank. It should be remembered, of course, that considerable information is published in due course about each bank, including the statement of its condition which each State member bank is required to publish at least three times a year.

Mr. Raymond P. Brandt

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Your third and fourth inquiries do not relate to specific communications. They ask, in effect, for the opinion of this Board, and any ensuing action by the Board, on the question whether the Mercantile Trust Company violated the law or any regulation of the Board in reacquiring the stock of Mercantile-Commerce National Bank.

That question, of course, is one that can finally be determined only by the courts; and since it is possible that the question may be an issue involved in the pending litigation, it would not seem appropriate for the Board to express any opinion as to that question at this time lest such an opinion might in some way prejudice the position of the parties to the litigation or be regarded as interference with the judicial process.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE A. M. NEWSPAPERS
Monday, March 9, 1959

A-465

Item No. 12
3/6/59

The United States Treasury and the Federal Reserve System announced today that they are seeking further data and information in connection with a technical study of the Government securities market which they are conducting jointly. This factual inquiry, which is focusing especially on developments in the market last summer, is the outgrowth of several preliminary studies by the Treasury, the Federal Reserve System, and interested market groups. It is hoped that the results will point the way to improving the market's functioning and to preventing speculative excesses in the market.

Data will be requested from major lenders to, and participants in, the Government securities market, including banks, non-financial corporations, dealers, and brokers. These reports are intended to provide a more complete record pertaining to the financing of market transactions.

There also will be informal consultations with informed individuals about the functioning of the market. The consultations are designed to obtain the benefit of a broad cross section of opinion on underlying forces shaping performance of the market and on means for improving market mechanisms and functioning.

It is expected that the joint study will be completed and made public about midyear.

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

Item No. 13
3/6/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of March 3, 1959, the Board approves the appointment of William M. McHale as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

[Handwritten signatures and initials on a set of horizontal lines]