

The attached set of minutes of the meeting of the Board of Governors of the Federal Reserve System on May 28, 1959, which you have previously initialed, has been amended at the request of Governor Robertson to amend the last paragraph on page 19.

Chm. Martin

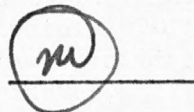
Gov. Shepardson

Gov. King

Handwritten initials and signatures. The first signature is a circled 'M' with a horizontal line underneath. The second signature is 'C. S.' with a horizontal line underneath. The third signature is 'P. King' with a horizontal line underneath.

The attached set of minutes of the Board of Governors of the Federal Reserve System on May 28, 1959, has been amended at the request of Governor Shepardson to amend the second sentence of the third full paragraph on page 12.

Chairman Martin

A handwritten signature, appearing to be 'm', is enclosed in a circle. A horizontal line is drawn across the bottom of the circle.

Minutes for May 28, 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 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 18      Approval of a discount rate of 3-1/2 per cent at the Federal Reserve Banks of New York, Chicago, St. Louis, Minneapolis, 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>WM</u>	_____
Governor Szymczak	x _____	_____
Governor Mills	x _____	_____
Governor Robertson	x _____	_____
Governor Balderston	_____	x <u>CCB</u>
Governor Shepardson	x <u>CS</u>	_____
Governor King	x <u>King</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, May 28, 1959. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Szymczak  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Hackley, General Counsel  
Mr. Furth, Associate Adviser, Division of  
International Finance  
Mr. Solomon, Assistant General Counsel  
Mr. Nelson, Assistant Director, Division of  
Examinations  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Hill, Assistant to the Secretary  
Mr. Davis, Assistant Counsel  
Mr. McClelland, Supervisory Review Examiner

Discount rates. The establishment without change by the Federal Reserve Bank of San Francisco on May 27, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Items circulated to the Board. The following items, which had been circulated to 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 Manufacturers Trust Company, New York City, approving the establishment of a branch at 1919 Francis Lewis Boulevard, Queens County. (For transmittal through the Federal Reserve Bank of New York)	1

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	<u>Item No.</u>
Letter to The Mount Union Bank, Alliance, Ohio, approving the establishment of a branch at 101 East Main Street. (For transmittal through the Federal Reserve Bank of Cleveland)	2
Letter to the County Trust Company of Maryland, Glen Burnie, Maryland, approving the establishment of a branch in Chestertown incident to its merger with The Kent County Bank. (For transmittal through the Federal Reserve Bank of Richmond)	3
Letter to the Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in the Philadelphia Fresh Food Terminal Corporation Building. (For transmittal through the Federal Reserve Bank of Philadelphia)	4
Letter to The Central Trust Company, Cincinnati, Ohio, approving the establishment of a branch at 3770 Reading Road. (For transmittal through the Federal Reserve Bank of Cleveland)	5
Letter to the Citizens State Bank of Dalhart, Dalhart, Texas, approving an investment in bank premises. (For transmittal through the Federal Reserve Bank of Dallas)	6
Letter to The Harlingen National Bank, Harlingen, Texas, approving its application for fiduciary powers. (For transmittal through the Federal Reserve Bank of Dallas)	7
Letter to the First National Bank, San Antonio, Texas, concerning the disclosure of information regarding the operation of a common trust fund. (For transmittal through the Federal Reserve Bank of Dallas)	8
Letter to the Federal Deposit Insurance Corporation regarding the application of the Hereford State Bank, Hereford, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.	9
Letter to the Federal Reserve Bank of Boston expressing the view that section 8 of the Clayton Act would not be applicable to the service of Mr. Frederick H. Tarr as a director of national banks in Rockport and Gloucester, Massachusetts.	10

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During the discussion of Item No. 10, Mr. Hackley pointed out that the ruling with respect to Mr. Tarr was based on a precedent letter of February 27, 1940, S-205, relating to an individual serving two banks located in unincorporated communities lying within the boundaries of two adjoining unincorporated "Towns" of New England. "Towns" in New England, he explained, were generally similar to Counties or Parishes in other States and the Board had previously taken the position that the limits of such "Towns" should be disregarded and that the applicability of the statute should be decided on the same basis as if only the two unincorporated communities were involved. In this case, the review of the present situation made it clear that the two villages concerned were not contiguous.

Application to organize a national bank (Item No. 11). Under date of January 23, 1959, the Comptroller of the Currency requested the Board's recommendation regarding an application to establish a national bank at Benton, Missouri. A report of investigation, made by an examiner for the Federal Reserve Bank of St. Louis, indicated that while the proposed capital structure of the bank would be adequate and the proposed management would be reasonably satisfactory, the need for the bank was not clearly established, and it was the opinion of the examiner that it was doubtful whether the proposed bank could develop a satisfactory volume of business. Accordingly, the Federal Reserve Bank of St. Louis recommended disapproval. The Division of

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Examinations in its memorandum of May 20, 1959, recommended favorable consideration in view of the fact that this was a borderline case and there seemed to be some justification for providing banking services to the community.

In commenting on the memorandum, Mr. Nelson noted that Benton was the county seat and had no banking facilities; the nearest banks were 7, 9, and 10 miles distant. He stated that the Division of Examinations' recommendation was based on the adequacy of capital, satisfactory management, and needs of the community.

Governor Mills said he was inclined to accept the recommendation of the Division of Examinations. It was a "thin" application, but there was a prospect of good management and the financial position of the principal stockholders was satisfactory.

Governor Robertson stated that, while he would ordinarily take the position that a community without a bank was entitled to such service, or that in a one-bank town more competition was desirable, he was inclined to share the doubts of the Federal Reserve Bank in this case. A considerable part of the control of the bank would be held by persons living outside the Benton community and, although the decision was a close one, he would resolve his doubts on the side of turning the application down.

Governor Shepardson stated that his conclusion was the same as that of Governor Robertson.

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Governor King said that he had come into this meeting convinced that the recommendation of the Division of Examinations for approval of the application was the correct one. His general approach was that applications for bank charters of this sort should be approved wherever that procedure could reasonably be justified. It seemed to him reasonable that in a community as small as Benton--600 population--it might be necessary to go outside the town in order to secure the capital necessary for organizing a bank. Since a responsible group wanted to organize the bank, and since it appeared that it could obtain suitable management, he disliked the idea of denying the application. On the other hand, the comments by Governor Robertson at this meeting had shaken his views somewhat with respect to the application under consideration, and for that reason he would prefer not to vote in this particular instance.

Governor Szymczak stated that he would go along with the recommendation of the Division of Examinations, particularly since this seemed to be a case that the Comptroller of the Currency would consider carefully. He would, of course, consult with the St. Louis Bank in accordance with the established procedure before sending a recommendation to the Comptroller's office that differed from the recommendation of the Reserve Bank.

Chairman Martin said that he, too, was sympathetic toward the view that applications for bank charters should be granted where



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that could be done with reasonable justification. However, at the time he reviewed this particular case he had just had the benefit of reading a talk that had been given by Deputy Comptroller of the Currency Jennings in which there was a review of the proliferation of bank charters granted in the 1920's and of the large number of failures of banks that occurred in the early 1930's. His approach was that in a period of boom the supervisory authorities should be cautious about granting charters for new banks unless they could be quite sure that there was a real opportunity for the bank to succeed. He questioned whether the town of Benton, with only 600 population and with other banks located only a few miles away, really needed this new bank. Thus, while ordinarily he was on the other side in similar cases, his judgment in this case would be to accept the recommendation of the Federal Reserve Bank of St. Louis and to recommend to the Comptroller of the Currency against granting the charter. He added the comment that he felt it very desirable that the Division of Examinations had presented this case in the manner in which it had, as a means of helping to bring out the best judgment on such applications.

Thereupon, approval was given to a letter to the Comptroller of the Currency that would recommend against approval of the application for a national bank charter in Benton, Governors Szymczak and Mills voting "no". A copy of the letter sent pursuant to this action is attached hereto as Item No. 11. Governor King did not vote on this action.

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At this point Messrs. Molony, Assistant to the Board, Noyes, Adviser, Division of Research and Statistics, and Thompson, Supervisory Review Examiner, Division of Examinations, entered the room.

Bankers International Corporation (Item No. 12). Under date of February 20, 1959, the Federal Reserve Bank of New York forwarded to the Board an application of Bankers Trust Company, New York, New York, to organize an Edge Act corporation under the name of Bankers International Corporation; in a letter dated March 20, 1959, the New York Reserve Bank recommended approval of the application, stating also that Counsel for that Bank had reviewed the Organization Certificate and Articles of Association and expressed the opinion that they met the requirements of section 25(a) of the Federal Reserve Act and Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act. The proposed corporation would be organized to assist Bankers Trust in expanding its foreign and international business and to make loans and investments to foreign organizations of the kinds permitted to such corporations. It would be capitalized primarily with funds now held by the MXZ Corporation, a wholly owned subsidiary of Bankers Trust, by transferring to the Edge corporation in return for most of its stock all of the assets of MXZ Corporation, consisting of approximately \$1.8 million in cash and an oil royalty interest

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currently paying about \$60,000 a month and valued at \$1.2 million. MXZ Corporation would then be liquidated by distributing the stock of the Edge corporation to Bankers Trust Company. Under the proposal, there also would be transferred to Bankers International all of the stock (except directors' qualifying shares) of Bankers Trustee and Executor Company, Ltd., currently held by Bankers Company of New York subject to an agreement with the Board of Governors pursuant to section 25 of the Federal Reserve Act. The stock of the proposed Edge corporation received by Bankers Company of New York would be transferred to Bankers Trust Company.

Memoranda from the Examinations, International Finance, and Legal Divisions under dates of May 4, 5, and 19, 1959, respectively, were circulated to the Board. The Division of Examinations recommended approval, provided the Legal Division concluded that the proposed acquisition of the oil royalty interest was not inconsistent with section 25(a) of the Federal Reserve Act or Regulation K; the Division of International Finance recommended approval of the application to organize the Edge Act corporation but suggested disapproval of the proposed acquisition of a domestic oil royalty interest on the grounds that collecting oil royalties from fields located in the United States had no connection with international or foreign banking; and the Legal Division expressed the view that the better legal conclusion was that Bankers was prohibited under Regulation K from transferring the Wyoming oil royalty interests

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to Bankers International. The Legal Division added that, aside from legal implications and in view of the basic policy question, the Board might conclude that it would be preferable to disapprove that part of the application relating to the proposed transfer of the Wyoming oil-royalty interest.

Mr. Goodman, after reviewing the facts in the case, stated that while an oil-royalty interest could not be purchased by a banking corporation under Regulation K, the proposed transfer of MXZ Corporation would merely represent a switch of the asset from one subsidiary of Bankers Trust Company to another; therefore, the manner of holding would differ in form but not in substance. He noted that the oil interest would be placed on the books of the Edge corporation at \$1 although its value was estimated at \$1,200,000, that it would pay about \$60,000 monthly to the Edge corporation, and that the proposed transfer would simplify the corporate structure of Bankers Trust Company. Therefore, the Division of Examination recommended approval of both the application and the proposed acquisition of the oil interests.

Mr. Solomon said that under a general principle of corporation law a corporation cannot issue shares of stock in exchange for property which it could not properly purchase for cash. Thus, defining "funds" in a broad sense to include all types of property, this principle ran counter to the use of the oil royalty interests in the initial capitalization of Bankers International and cast doubt upon the propriety of the proposed transfer. He pointed out, however, that in the light of the

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general terms of the statute, it could be argued that it was within the Board's discretion to permit the acquisition, and in the event the Board should do so, there probably would be no one in a position successfully to challenge the Board's legal authority.

Mr. Furth said that, while the Division of International Finance concurred in the recommendation to approve the application to organize an Edge Act corporation, it suggested disapproval of the proposed acquisition of a domestic oil royalty interest regardless of the legal aspects of the case. This view was based on the fact that an Edge Act corporation was organized to conduct international and foreign banking business and not to engage in purely domestic operations. It was understood that the proposed transfer of the oil royalty interest was for the purpose of reaping a tax advantage, and this did not seem sufficient reason for permitting an Edge corporation to acquire and hold an asset that would be foreign to its business.

During the ensuing discussion it became clear that all of the members of the Board who were present favored approval of the application to form an Edge Act corporation, to be owned by Bankers Trust Company, for the purpose of assisting that bank in the expansion of its foreign and international business. The discussion thus turned mainly to the question of permitting the Edge corporation to acquire the oil royalty interest now owned in another subsidiary of Bankers Trust Company. It was suggested that approval of such acquisition

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might establish a precedent that would not be desirable under the terms of Regulation K, which was designed to restrict corporations authorized thereunder to the international field. It was also brought out that representatives of Bankers Trust Company had made it clear that plans for formation of the Edge corporation did not depend on obtaining permission for it to acquire the domestic oil interests. In so far as the tax advantage to Bankers Trust was concerned, it was suggested that, while this might not of itself be objectionable, such a consideration would not justify the Board in departing from the general principle that Edge corporations should not be permitted to get into domestic operations piecemeal.

Governor Mills took the position that the Board had discretion as to whether to admit the oil interest into the assets of the Edge corporation. He said that he would be willing to approve not only the creation of Bankers International but also the request for permission for that corporation to acquire by transfer the assets of MXZ Corporation. It appeared that Bankers International could be organized without this particular asset, but since it was the choice of management to include the oil royalty interest in the structure, since the new corporation would be stronger by having such earning asset, and since apparently the Board was in a position legally to authorize the acquisition, he could see no sound reason policywise for denying that part of the request. Furthermore, he did not believe

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that approval of the transfer would establish a precedent, and to the extent any precedent might be established it would have some merit and justification.

Chairman Martin inquired as to how the acquisition of the domestic oil interest would affect the public interest, that is, whether such acquisition represented some real danger to the public.

Governor Robertson said that, as he saw the matter, the Board had taken the position that Edge Act corporations should be limited to activities relating to international operations. In this case, acquisition of a domestic oil interest would be of minor significance and would not itself be a danger. However, such a step along with one or more other steps could result in an Edge corporation getting into domestic activities, and situations could develop that would cause difficulty to the Board in administering the regulation. It was because of this danger that he felt the acquisition of the domestic oil interests should not be permitted.

Governor Shepardson said that it still was not entirely clear to him whether the reason for denying the acquisition was a technicality or whether it was reaching at a substantive danger. However, he would join in the view that it was preferable not to permit the acquisition on the grounds mentioned by Mr. Solomon that a corporation cannot issue stock in exchange for property which it cannot properly purchase for cash.

Governor Szymczak indicated that he would reach a position similar to that suggested by Governors Robertson and Shepardson, although at first he had been inclined to go along with the recommendation of the Division of Examinations.

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Governor King, after inquiring as to whether the Edge corporation would have a material advantage over competitors if it acquired the domestic oil interest, stated that he would prefer not to vote on this question.

Chairman Martin then suggested that the matter be decided on the basis that the formation of the Edge corporation would be approved with the understanding that it would not be permitted to acquire the domestic oil interest. For himself, he did not believe this to be a matter of great importance and he rather agreed with the views expressed by the Division of Examinations. However, since the majority seemed to favor denying permission for the acquisition and since such action apparently would not prevent the organization of the Edge corporation, which he favored, it did not appear that this procedure would conflict with what the Board was seeking to accomplish under Regulation K. The Chairman added the comment that he did not agree with Governor Robertson that there was a danger to the public interest in the supervisory authority making an exception that would help management in a case such as this merely because a hidden danger might show up at some future time in another case. In the Chairman's opinion, the supervisory agency must guard against setting up procedures that might keep managements from going ahead and which, in fact, might work in exactly the opposite direction from that intended in the Board's regulation and the law on which the regulation was based.



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Thereupon, approval was given to a letter to Bankers Trust Company to be transmitted through the Federal Reserve Bank of New York, approving the organization of Bankers International Corporation, provided there would not be transferred to that corporation the oil royalty interests of MXZ Corporation in exchange for stock of Bankers International. On this action, Governor Mills voted to approve the application to organize the Edge corporation but dissented from the provision denying permission to acquire the oil royalty interests. Governor King did not vote on this action. A copy of the letter sent pursuant to the action is attached as Item No. 12.

Messrs. Furth, Davis, and McClelland then withdrew from the meeting.

Bill S. 1120 (Item No. 13). In a letter dated May 22, 1959, Chairman Robertson of the Senate Banking and Currency Committee requested the Board's views regarding section 4 of S. 1120 which would amend section 5144 of the Revised Statutes. The amendment would add a provision that would permit the maintenance of a reserve of readily marketable assets by only a single holding company affiliate, to be designated by the Board in a case where there was more than one holding company affiliate with respect to the same bank or group of banks. A draft of reply to Chairman Robertson, prepared by the Legal Division

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and distributed to the Board under date of May 26, 1959, stated that as heretofore indicated by the Board, it had no objection to the enactment of the proposed amendment, although it had recommended repeal of all of the provisions of present law relating to holding company affiliates of member banks.

In commenting on the letter, Mr. Hackley noted that provisions of S. 1120 were similar to those recommended by the Comptroller of the Currency in connection with the proposed Financial Institutions Act. It was understood that the provisions were designed primarily to cover the so-called Morris Plan group--a multiple holding company affiliate situation of the kind described in the provisions.

During the discussion that followed, suggestions were made for certain changes and deletions and the letter was approved in the form attached hereto as Item No. 13.

At this point Mr. Brill, Chief, Capital Markets Section, entered the room.

Interpretations under Regulations T and U (Item No. 14). There had been distributed to the Board a memorandum from Mr. Solomon dated May 27, 1959, submitting drafts of interpretations of certain points in connection with the recent amendments to Regulations T and U. The Regulation T interpretation would make it clear that the new withdrawal rules cannot be evaded through purchases of unregistered nonexempted securities or by treating sales of securities held in the account as

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short sales. The Regulation U interpretation would make it clear that same-day-purchase-and-sale substitutions are permissible under Regulation U in substantially the same way as under Regulation T.

Following comments by Mr. Solomon, the Board approved unanimously the proposed interpretations, with the understanding that they would be published in the Federal Register and Federal Reserve Bulletin and that copies would be sent to the Presidents of all Federal Reserve Banks. A copy of the letter sent pursuant to this action is attached hereto as Item No. 14.

Messrs. Noyes, Benner, Molony, and Brill then withdrew from the meeting.

First Bank Stock Corporation economic statement. There had been distributed to the Board a memorandum from Mr. Solomon dated May 27, 1959, informing the Board that a statement had been filed by an economist for the First Bank Stock Corporation in connection with the hearings on that corporation's application to acquire Eastern Heights State Bank of St. Paul. The statement expressed the opinion of the economist as an expert witness on several aspects of the case, including the opinion that the application met the requirements of the Bank Holding Company Act and should be granted. The memorandum raised the question whether or not the Board would desire to have a statement filed by a Board economist commenting on the witness' statement. It was pointed out that from a strictly

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legal point of view of completing the record, it probably would be desirable to have such a statement included in the record, although the substance of such material could later be included in the Board's opinion regarding whatever action was taken on the application. Should the Board disapprove the application, the decision would be more likely to be sustained on appeal with such a statement in the record. On the other hand, Board counsel in this and other such cases had attempted to be as nonadversary as practicable consistent with developing a rounded record, and such a statement might appear to be somewhat adversary in nature.

After comments by Messrs. Solomon and Hackley on the reasons for and against inclusion of such a statement at this stage, Governor Mills expressed the view that to file an economic statement by a member of the Board's staff would very likely be construed as an adversary action. The purpose of the hearing, he said, was to determine whether this applicant would be permitted to acquire ownership of a particular bank, and he was of the opinion that it would be completely irregular to interject the Board into the hearing in this way. He noted that the Board had previously taken the position that it would restrict the material it put into records on such applications to factual matters.

It was then agreed that no statement by a staff economist would be filed as a part of the record in the case.

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The meeting then recessed and reconvened at 3:00 p.m. with the following in attendance:

Chairman Martin  
Governor Szymczak  
Governor Mills  
Governor Robertson  
Governor Shepardson  
Governor King

Mr. Sherman, Secretary

Chairman Martin stated that he had just received a telephone call from Mr. Hayes who informed him that the directors of the Federal Reserve Bank of New York had voted to establish a discount rate of 3-1/2 per cent at the New York Bank. The Secretary reported that word also had been received during the afternoon of actions taken by the directors of the Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and Dallas to establish discount rates of 3-1/2 per cent at those Banks. It was also stated that the Federal Reserve Banks of Cleveland and Richmond had acted today to re-establish their existing rates of 3 per cent.

Following a brief discussion, during which Mr. Molony was called into the meeting, the establishment of discount rates of 3-1/2 per cent at the Federal Reserve Banks of New York, Chicago, St. Louis, Minneapolis, and Dallas effective May 29, 1959, was approved unanimously, with the understanding that an announcement of this action would be handed to the press for release at 4:00 p.m. EDST today.

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Secretary's Note: The rates approved by the Board for the Federal Reserve Banks of New York, Chicago, St. Louis, Minneapolis, and Dallas were as follows:

On discounts for and advances to member banks under Sections 13 and 13a for the Federal Reserve Banks of New York, Chicago, St. Louis, Minneapolis, and Dallas--3-1/2 per cent;

On advances to member banks under Section 10(b) for each of these Banks--4 per cent;

On advances to individuals, partnerships, and corporations other than member banks under last paragraph of Section 13 for New York and St. Louis--4-1/2 per cent;

On advances under Section 13b direct to industrial and commercial businesses for New York--a range of 4-1/2 per cent to 6 per cent.

Other rates without change.

Advice of this action was sent to all Federal Reserve Banks and branches, and arrangements were made for publication of a notice in the Federal Register.

It was also agreed that re-establishment of the existing discount rates at the Cleveland and Richmond Banks be approved.

Governor Robertson stated that in view of the action taken to increase the discount rate by 1/2 per cent he would not vote to "determine" a one per cent increase in the rate of discount at all Federal Reserve Banks and that, in the absence of action by the Board of Governors to determine a rate at such Banks, it seemed appropriate to approve the re-establishment of the existing rate at the other Banks if they came in. If, however, even one Federal Reserve Bank had come in with an increase of one full percentage point, Governor Robertson said that he would have voted to approve it and to determine a similar rate for all other Federal Reserve Banks in order that there could have been unified System action on that basis.

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In view of the change that had been made, he would treat the actions of Reserve Banks in re-establishing existing discount rates in the routine manner.

Governor Shepardson stated that it was his understanding that no announcement was made by the Board in connection with approvals of re-establishment of existing rates, and this understanding was confirmed.

The discussion then turned to the manner in which inquiries regarding the rate change would be handled. Governor Robertson said that he hoped no suggestion would be made by Federal Reserve representatives that this was simply an adjustment to market rates.

Mr. Molony stated that, while he would not have in mind volunteering a statement, he would plan if questioned to say that the rate change represented an adjustment to financial and economic conditions.

There was some discussion of this response, Governor Robertson questioning whether it was necessary to refer to an adjustment to financial conditions, at the conclusion of which it was understood that Mr. Molony would handle inquiries in the light of this discussion.

Thereupon the meeting adjourned at 3:13 p.m.

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:

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Appointments

Maynard S. Comiez as Economist in the Division of Research and Statistics, with basic annual salary at the rate of \$7,030, effective the date of entrance upon duty.

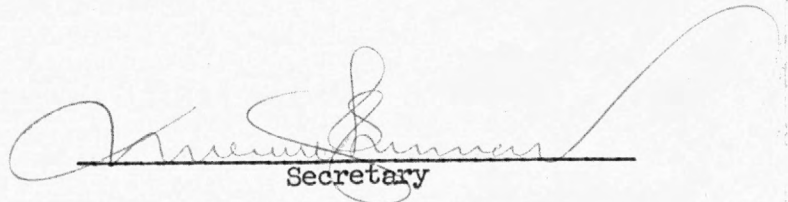
John D. O'Berg as Operator, Tabulating Equipment, in the Division of Administrative Services, with basic annual salary at the rate of \$3,495, during the period June 4 to August 21, 1959.

Salary increases

Jacqueline McDaniel, Statistical Clerk, Division of Bank Operations, from \$3,495 to \$3,755 per annum, effective May 31, 1959.

Acceptance of resignation

J. Frank Holahan, Supervisory Review Examiner, Division of Examinations, effective June 12, 1959.

  
Secretary



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

Item No. 1  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.



Board of Directors,  
Manufacturers Trust Company,  
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment of a branch at 1919 Francis Lewis Boulevard, Whitestone, Queens County, New York, by Manufacturers Trust Company, New York, New York. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 2  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 28, 1959.

Board of Directors,  
The Mount Union Bank,  
Alliance, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors approves the establishment of a branch by The Mount Union Bank, at 101 East Main Street, Alliance, Ohio, provided the branch is established within one year from the date of this letter and approval of the State authorities is effective as of the date the branch is established.

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  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.

Board of Directors,  
County Trust Company of Maryland,  
Glen Burnie, Maryland.

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 in Chestertown, Maryland, by County Trust Company of Maryland, in connection with the merger of The Kent County Bank, Chestertown, Maryland, with and into County Trust Company of Maryland.

The approval contained herein is given provided (a) the merger is effected substantially in accordance with the terms of the Agreement of Merger dated March 25, 1959, (b) the merger and establishment of the branch are effected within six months from the date of this letter, (c) any stock acquired from dissenting shareholders is disposed of within six months from the date of acquisition, and (d) formal approval of the State authorities is obtained and is in effect at the time the merger and establishment of the branch are effected.

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  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 28, 1959.

Board of Directors,  
Provident Tradesmens Bank  
and Trust Company,  
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch in the Philadelphia Fresh Food Terminal Corporation Building, Third Street between Packer and Pattison Avenues, Philadelphia, Pennsylvania, by Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania. This approval is given provided the branch is established within six months from the date of this letter and formal approval of State authorities is effective at the time the branch is established.

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  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 28, 1959.

Board of Directors,  
The Central Trust Company,  
Cincinnati 1, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 3770 Reading Road, by The Central Trust Company, Cincinnati, Ohio, provided (1) the branch is established within one year from the date of this letter, (2) branch operations now conducted at 3500 Reading Road will be discontinued simultaneously with the establishment of the new branch, and (3) approval of the 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. 6  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.

Board of Directors,  
Citizens State Bank of Dalhart,  
Dalhart, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment by the Citizens State Bank of Dalhart, Dalhart, Texas, of \$139,038.92 in bank premises.

It is understood that depreciation will be continued in accordance with your established rates.

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. 7  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.

Board of Directors,  
The Harlingen National Bank,  
Harlingen, Texas.

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 Texas, 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 that The Harlingen National Bank is now authorized to exercise will be forwarded to you in due course.

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. 8  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.

Mr. E. A. Sibley,  
Vice President and Trust Officer,  
First National Bank,  
San Antonio 6, Texas.

Dear Mr. Sibley:

This refers to your letter of February 12, 1959, requesting the Board's opinion as to the propriety of a national bank's disclosure of information regarding the operation of a common trust fund.

The restrictions contained in section 17 of Regulation F, regarding publicizing and advertising common trust funds, are not intended to restrict a trust officer in discussing his bank's common trust fund in a generally informative way with a potential trust customer or his attorney. Such discussion could properly include a review of the investment composition of the common trust fund and indications of its current unit value and yield. For such purpose a copy of the latest audit report of the common trust fund could be shown to the prospective customer. However, if too much emphasis is placed on investment composition and changes therein, or upon trends in unit value or yield, it would be difficult to escape the conclusion that trust business is being sought by "selling" the common trust fund. This is precisely what the regulation has attempted to discourage. While relationships with prospective trust customers appropriate to the applicable provisions of Regulation F are obviously difficult to specify in any precise way, the Board has always believed that considerable reliance should be placed on the sound judgment and good faith of trust institutions in carrying out the apparent intent and purpose of the regulation in this respect.

As you know, the Board has heretofore stated that the annual reports or audits required to be made of common trust fund operations are for use solely in informing those persons to whom a regular periodic accounting of the trusts participating in the fund ordinarily would be rendered. Therefore, the Board is of the opinion that it is not proper for a bank to deliver copies of prior reports on its common trust fund to a prospective customer or his representative.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 9  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 28, 1959.

The Honorable Jesse P. Wolcott,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of May 14, 1959,  
concerning the application of the Hereford State Bank, Hereford,  
Texas, for continuance of deposit insurance after withdrawal  
from membership in the Federal Reserve System.

This bank has operated over a period of years with  
moderately deficient capital funds, and in order to effect cor-  
rection of this deficiency no cash dividends have been paid.  
No other corrective programs which the Board of Governors feels  
should be incorporated as conditions to the continuance of de-  
posit insurance have been urged upon or agreed to by the bank.

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. 10  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.

Mr. Benjamin F. Groot, Vice President,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Groot:

Reference is made to your letter of April 29, 1959, and previous correspondence regarding the applicability of section 8 of the Clayton Act to the services of Mr. Frederick H. Tarr as a director of The Rockport National Bank, Rockport, Massachusetts, and as a director of the Gloucester National Bank, Gloucester, Massachusetts. It is understood that Mr. Tarr is no longer an officer of The Rockport National Bank.

It is noted that, after reviewing the matter and in the light of current information which has been developed, you and your Counsel are of the opinion that the Village of Rockport and Gloucester City should still be considered as not contiguous or adjacent within the meaning of section 8 of the Clayton Act. The Board concurs in this opinion.

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. 11  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959.



Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention Mr. L. A. Jennings,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 23, 1959, enclosing copies of an application to organize a national bank at Benton, Missouri, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of St. Louis indicates that the proposed capital structure of the bank would be adequate in relation to the anticipated volume of deposits and that the proposed management would be reasonably satisfactory. However, the need for the bank is not clearly established; and, in the opinion of the examiner, it is doubtful whether the proposed bank could develop a satisfactory volume of business. In view of these unfavorable factors, the Board of Governors does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

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. 12  
5/28/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 28, 1959

Mr. Robert H. Brome,  
Resident Counsel and Secretary,  
Bankers Trust Company,  
16 Wall Street,  
New York 15, New York.

Dear Mr. Brome:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated February 13, 1959, of Bankers International Corporation, and there is enclosed herewith a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. As you are aware, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 3(c) of the Board's Regulation K.

In the organization of Bankers International Corporation, the Board of Governors has noted that, under the proposal as submitted, most of the initial capital of the proposed corporation would be provided by transferring to it the cash assets and oil royalty interests of MXZ Corporation (a wholly-owned subsidiary of Bankers Trust Company) in return for capital stock of the proposed corporation; that the oil royalty interests now held by MXZ Corporation would be acquired and carried at a nominal value of \$1; that MXZ Corporation would then be liquidated and the stock of Bankers International Corporation would be transferred to Bankers Trust Company; and that, in exchange for the balance of its initial capital stock, Bankers International Corporation would receive all of the stock (except directors' qualifying shares) of Bankers Trust and Executor Company, Ltd. (the London fiduciary affiliate of Bankers Trust Company), which stock is now held by Bankers Company of New York (a corporation operating under agreement with the Board of Governors pursuant to Section 25 of the Federal Reserve Act) and carried at \$280,000.

The Board approves the organization of Bankers International Corporation except that, and subject to the condition that, there shall not be transferred to Bankers International Corporation the oil royalty interests of MXZ Corporation in exchange for stock of Bankers International Corporation.

Mr. Robert H. Brome

- 2 -

The Board's consent to the proposed acquisition of stock of Bankers Trustee and Executor Company, Ltd. is granted subject to the following conditions:

- (1) That Bankers International Corporation shall not hold any stock in Bankers Trustee and Executor Company, Ltd. if such company at any time fails to restrict its activities to those permissible to a corporation in which Bankers International Corporation, with the consent of the Board of Governors, may purchase and hold stock under Section 25(a) of the Federal Reserve Act or Regulation K, or if the Company, except with the consent of the Board of Governors, establishes any branch or agency or takes any action or undertakes any operation in England or elsewhere which at that time is not permissible to Bankers International Corporation without such consent;
- (2) That the character and scope of the business of the Company shall not be broadened or changed without first obtaining the approval of the Board of Governors;
- (3) That Bankers International Corporation shall cause the Company in the conduct of its business to comply with the applicable laws of England and to be guided by sound banking principles and the highest standards of corporate fiduciaries;
- (4) That when required by the Board of Governors, Bankers International Corporation will cause the Company to permit examiners appointed by the Board of Governors to examine the Company and to furnish the Board of Governors with such reports as it may require from time to time; and
- (5) That Bankers International Corporation will be expected to dispose of the stock of the Company as promptly as practicable in the event that operations of the Company should at any time be inconsistent with the provisions of Section 25(a) of the Federal Reserve Act or Regulation K.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Enclosure

May 28, 1959

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated February 13, 1959, of BANKERS INTERNATIONAL CORPORATION duly filed with said Board of Governors, and that BANKERS INTERNATIONAL CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By (Signed) Kenneth A. Kenyon  
Assistant Secretary

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 13  
5/28/59

OFFICE OF THE CHAIRMAN

May 28, 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 May 22, 1959, enclosing a copy of S. 1120, as it passed the Senate on May 13, 1959, and requesting the views of the Board with respect to section 4 which was added by an amendment proposed and adopted during the Senate debates on the bill.

As indicated in your letter, section 4 of S. 1120 contains a provision substantially similar to a provision that was included in the "Financial Institutions Act" bill in the 85th Congress. The provision would amend section 5144 of the Revised Statutes to require only one of several holding company affiliates of the same bank or group of banks to maintain the reserve of readily marketable assets required by that section, such company to be designated by the Board of Governors. The proviso in the new provision would require the company so designated to have direct or indirect ownership or control of all the stock of the affiliated banks that is directly or indirectly owned or controlled by all such holding company affiliates, in order to make certain that earnings of all the affiliated banks would be channeled to the company required to maintain the reserve.

These provisions were originally recommended by the Comptroller of the Currency in connection with consideration of the Financial Institutions Act; and at that time the Board offered no objection provided the proviso mentioned above was included. It is understood that the provisions are designed primarily to cover the so-called "Morris Plan group" which involves a multiple holding company affiliate situation of the kind described in the provisions.

Since the subject of the amendment is wholly unrelated to reserve requirements of member banks, the Board would not have favored inclusion of the amendment in S. 1120. However, in keeping with its previous views as indicated above, the Board has no objection to the

The Honorable A. Willis Robertson -2-

enactment of the amendment to section 5144 of the Revised Statutes contemplated by section 4 of the bill as it passed the Senate. As noted in your letter, the Board in its Report of May 7, 1958 under the Bank Holding Company Act has recommended the repeal of all provisions of present law relating to holding company affiliates of member banks.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM S-1698 Item No. 14  
WASHINGTON 25, D. C. 5/28/59

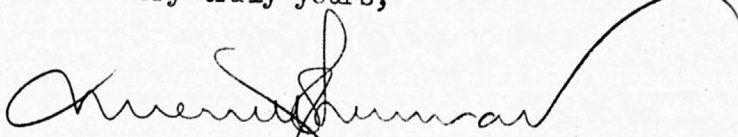
ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 29, 1959.

Dear Sir:

There are enclosed for your information copies of interpretations by the Board relating to Regulations T and U which will be published in the Federal Register and the Federal Reserve Bulletin.

Very truly yours,



Merritt Sherman,  
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TRANSACTIONS IN RESTRICTED ACCOUNTS  
UNDER AMENDED WITHDRAWAL RULES  
OF REGULATION T

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Amendments to Regulation T effective June 15, 1959 deal with withdrawals of collateral from a "restricted account", i.e., a general account in which the adjusted debit balance exceeds the maximum loan value of the securities. In that connection, an inquiry has been received regarding the application of the amended regulation to a purchase of unregistered nonexempted securities in such a "restricted account".

Unregistered nonexempted securities have no loan value under the regulation, are not subject to the restrictions of the withdrawal rules, and are not referred to in those rules. Purchase of an unregistered security without a deposit of a sum equal to the cost would amount to a withdrawal of the cost of the security.

This supersedes that portion of the interpretation at p. 938 of the 1949 Federal Reserve Bulletin dealing with a similar question.

The 1949 interpretation also dealt with two other points. One was the treatment of certain transactions as short sales. That portion of the interpretation was superseded by the June 15, 1959 amendments to the regulation. The other point was that the "good faith loan value" specified for an exempted security means the amount which the broker would customarily lend on the security, and that the figure cannot be arbitrarily reduced merely for the purpose of permitting a later substitution of registered securities for exempted securities. That principle continues to apply and is of increased significance under the amendments.

S-1698-b

PURCHASE-AND-SALE SUBSTITUTION ON SAME  
DAY UNDER AMENDED REGULATION U

Amendments to Regulation U effective June 15, 1959 deal, among other things, with changes in collateral for a "restricted loan", i.e., a bank loan that exceeds the maximum loan value of the collateral therefor. In connection with those amendments an inquiry has been received as to whether the bank may permit a substitution of collateral for such a loan under the amended regulation in a case in which the excess of the loan over the maximum loan value is not thereby increased and the substitution occurs in the form of a purchase and sale of collateral, both the purchase and sale orders being executed on the same day.

The bank may permit such a purchase-and-sale substitution under the amended Regulation U without additional collateral or reduction in the loan if it reasonably ascertains, and has evidence thereof in its records, that the purchase and sale orders were executed on the same day. The controlling events which must occur on the same day are the executions of the purchase order and sale order, and not the bank's receipt or release of stock certificates. It may be noted that the result is substantially similar to that under the June 15, 1959 amendments to Regulation T. Substitutions that do not involve a same-day purchase and sale are subject to the withdrawal limitations under both regulations.