

Minutes for December 1, 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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

W

Gov. Szymczak

Gov. Mills

R.

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. King

King

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, December 1, 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. King 1/

Mr. Sherman, Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Young, Director, Division of Research and
Statistics
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Daniels, Assistant Director, Division of Bank
Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Brill, Chief, Capital Markets Section,
Division of Research and Statistics
Mrs. Ulrey, Economist, Division of Research and
Statistics
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on November 30, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

1/ Chairman Martin and Governor King withdrew and re-entered at point indicated in minutes.

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Items circulated or distributed to the Board. The following items, which had been circulated or distributed 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 The First National City Bank of New York, New York, approving an extension of time within which the Santos, Brazil, branch may occupy temporary quarters.	1
Letter to the Federal Reserve Bank of New York interposing no objection to a procedure proposed in lieu of execution of Forms P-3 and P-4 by certain affiliated companies of Financial General Corporation in connection with its application for a voting permit.	2
Letter to Central Trust Capital Bank, Harrisburg, Pennsylvania, approving an extension of time to establish a branch in the Colonial Park Shopping Center, Lower Paxton Township.	3
Letter to the Federal Reserve Bank of Cleveland approving the appointment of Donald C. Robinson as Assistant Federal Reserve Agent, and of Donald J. Clink and Clarence J. Goudreau as Alternate Assistant Federal Reserve Agents.	4
Letter to the Federal Reserve Bank of Minneapolis approving a proposal that Blue Shield coverage at that Bank be changed from the standard form of contract into an Employer Liability Agreement with the Minnesota Medical Service, Inc.	5
Letter to the Federal Reserve Bank of Dallas regarding a question raised by the Republic National Bank of Dallas relating to payment of a particular certificate of deposit prior to maturity.	6
Letter to the Federal Deposit Insurance Corporation regarding an application of the First State Bank, Spearman, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	7

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	<u>Item No.</u>
Letter to the Federal Deposit Insurance Corporation regarding an application of Lafayette Savings Bank, Lafayette, Indiana, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	8
Letter to the Farm Credit Administration regarding the applicability of the recent amendment to Regulation R to consolidated debentures issued by the Central Bank for Cooperatives and the regional banks.	9
Letter to the Comptroller of the Currency recommending unfavorably with regard to an application to organize a national bank at Marshfield, Missouri.	10
Application of Bank Stock Corporation, Milwaukee, Wisconsin, for a one-month extension of time within which to become a holding company under the Bank Holding Company Act of 1956.	11

With respect to the foregoing Item No. 11, Messrs. Solomon and Hackley commented briefly on the joint memorandum that had been distributed from the Examinations Division and the Legal Division under date of November 30, 1959. Noting that Bank Stock Corporation had been authorized by the Board on September 3, 1959, to become a holding company by acquiring 80 per cent or more of the stock of Marshall and Ilesley Bank and Northern Bank, both of Milwaukee, Wisconsin, Mr. Solomon said that Bank Stock had asked for one additional month in which to complete the exchange of stock, and that Mr. A. S. Puelicher, President of Bank Stock, stated that it was important that the extension of time be granted by Tuesday, December 1, because, among other things, without the extension of time it would not be possible to take action that should be taken by Bank Stock on that date in order to comply with the Securities Act of

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1933 administered by the Securities and Exchange Commission, and that the Board's staff was aware of no change in the circumstances of this case that would make it inappropriate for the Board to grant a one-month extension. Mr. Hackley added that late in October Bank Stock promised the Antitrust Division of the Department of Justice that the exchange of stock of the proposed holding company for stock of the two banks would be postponed until December 2, 1959, and that this agreement made at the request of the Department of Justice was adequate reason for the failure to complete the exchange within the time originally specified. He referred to the expressed opinion of the Chicago Reserve Bank that the Board "would be justified in granting the request of extension", that the Board's Division of Examinations and Legal Division concurred, that a form of order for that purpose was being prepared, and that no indication of a record vote need be carried in this order for an extension of time, although the original application was approved by a divided vote among the Board members.

Continental Bank and Trust Company (Item No. 12). Referring to a letter to the Federal Reserve Bank of San Francisco having to do with matters covered in the report of examination of The Continental Bank and Trust Company, Salt Lake City, Utah, as of May 25, 1959, which had been circulated to the Board, Governor Balderston inquired whether the legality of the stock acquisition by The Continental Bank and Trust Company of the Paramount Life Insurance Company of Texas was being studied

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by the staff. He expressed the view that there should be no reference to this matter in the Board's letter to the San Francisco Bank until a decision had been reached, stating that he disliked having to say as was done in the draft letter that the Board had not yet reached a conclusion as to its future course.

Mr. Hackley replied that a long memorandum on this question was in preparation in the Legal Division and that the study should be available for Board consideration within the next few weeks.

It was then unanimously agreed to send a letter to the San Francisco Reserve Bank making no reference to the Paramount Life Insurance Company of Texas. A copy of this letter is attached as Item No. 12.

Payment of fees to real estate agents. There had been circulated a memorandum from the Division of Bank Operations dated November 9, 1959, regarding the payment of fees to real estate agents for obtaining tenants in Federal Reserve Bank buildings. This memorandum noted that when President Allen of the Chicago Reserve Bank was at the Board recently, he said that in about a year the Reserve Bank would have 30,000 square feet of floor space for rent and that although the former First Vice President had established a policy that the Bank would not pay real estate commissions, real estate brokers were now coming in and offering to obtain tenants. Mr. Allen had reported further that the chairman of the board of directors, Mr. Prall, believed that in the long

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run it paid to let the real estate brokers find tenants and that the Bank was disposed to do so unless there was some objection. The memorandum also carried the information that the Division of Bank Operations had not been able to determine that the Board of Governors had taken a position on this particular point but there was at least one case in which a Reserve Bank paid a fee for obtaining a tenant, namely, the San Francisco Reserve Bank, which in 1951 paid a fee to a real estate agent for obtaining the Federal Bureau of Investigation as a tenant to occupy most of the rental space in the Seattle Branch building on a five-year lease basis. According to the memorandum, the Division of Bank Operations saw no objection to the Chicago Reserve Bank's proposal and pointed out that unless the Board felt differently no action was necessary on its part.

Governor Mills observed that he thought the employment of real estate agents in this connection by Reserve Banks should be a matter of last resort and that so far as he knew Federal Reserve Bank space was much sought after by prospective tenants, making it unnecessary for the Reserve Banks to enlist the services of agents. He observed further that the employment of agents by the Reserve Banks would possibly open them to the criticism that they were making no effort on their own to secure tenants for vacant space in Reserve Bank buildings.

Mr. Farrell said that apparently it was a matter of opinion as to whether in the long run it paid to hire real estate brokers in this

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connection, and he added that the information pertaining to the San Francisco Reserve Bank had been brought out in the examination report of the Bank without comment and that the Bank had made no further report to the Board on this question.

At this point the Chairman and Governor King withdrew from the meeting.

In response to a comment from Governor Robertson that he agreed with Governor Mills and that by and large it was best to avoid the use of real estate agents except in essential cases, Mr. Farrell remarked that the decision hinged on the desirability of relieving Reserve Banks of troublesome details in an area which did not concern their regular banking functions; and Governor Robertson replied that it was important to avoid giving the impression to the public that the Federal Reserve Banks were engaged in a commercial activity concerning what was essentially temporary extra office space. Were the Board involved rather than the Reserve Banks, he added, it would certainly not be appropriate to use rental agents unless absolutely forced to.

Expressing agreement with the views of Governors Robertson and Mills, Governor Shepardson said that he would have thought the Reserve Banks would have difficulty in screening applicants rather than being forced to employ the services of an agent to secure applications to rent their spare office space.

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Governor Balderston recalled that during a recent conversation between President Allen and himself in his (Governor Balderston's) office, President Allen had said that it was his personal preference not to hire a real estate broker and that he preferred to have officers of the Chicago Reserve Bank lease the space and that when he had asked Governor Balderston's opinion on this question he had been given a comment similar to that of Governors Robertson and Mills. Governor Balderston went on to say that Mr. Prall had pressed the point that the Chicago Reserve Bank could make a better deal through using the services of a broker than not, and he referred to the extreme situation at the Louisville Branch where 21,000 square feet of usable space was currently vacant.

Speaking to the last point, Mr. Farrell said that the Board's letter of June 12, 1953, (F.R.L.S. No. 3188.1) regarding the leasing of unused space in new Federal Reserve Bank buildings or additions pending need of such space for bank operations had pointed out that the Reserve Banks were not necessarily expected to rent their excess space.

A discussion then ensued concerning the form which a letter to the Reserve Banks might take on this question, during which Mr. Hexter, Assistant General Counsel, entered the room and Mr. Fauver withdrew.

It was then decided that the Division of Bank Operations should prepare for later consideration by the Board a draft of letter to be sent to all Federal Reserve Banks indicating that while each situation

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should be decided on its own merits, the Board was of the opinion that in general it would be preferable for the Reserve Banks to obtain their own tenants, rather than to employ the services of real estate brokers.

Messrs. Farrell and Daniels withdrew from the meeting at this point.

New reporting form for unregulated lenders extending stock market credit (Item No. 13). There had been distributed a memorandum dated November 25, 1959, from Mr. Young. This memorandum, which indicated that the initial reporting form for unregulated lenders extending stock market credit (approved by the Board on September 8, 1959) had been approved by the Budget Bureau with minor modifications in the wording and format, was accompanied by a draft announcement of the adoption of F.R. 728 for inclusion in the Federal Register, a draft press release, and a sample copy of the reporting form as approved by the Budget Bureau.

Mr. Brill commented briefly on the memorandum, referring to the interest which the Securities and Exchange Commission had in this matter and to the fact that Mr. Bloch of the Securities and Exchange Commission staff had requested that the Commission be informed the day before a public announcement was made in order to provide opportunity to give its regional offices sufficient advance notice.

Governor Mills asked whether the definition of unregulated lenders was intended to include corporations who advance credit on the

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basis of repurchase agreements and buy-backs or whether it was intended to obtain information on these practices at a later point, noting that corporations might not consider this sort of activity as lending and that it was an area that should be covered.

Mr. Young replied that the reporting form would cover listed stocks subject to Regulations T and U, but that so far as credit advanced by corporations on the basis of Government securities was concerned, these would have to be reached through another program. He noted that the statistics required in such an additional program would have to be obtained partly from dealers in Government securities and partly from a strengthened program of securing reports from holders of Government securities which the Treasury would conduct.

The Chairman and Governor King re-entered the room at this point.

Mr. Brill responded negatively to a question from Governor Balderston as to whether there would be a question on the proposed form covering lending arrangements on registered stock but noted that comparable information was currently being collected from banks making such loans and that additional information of this kind would be obtained from brokers.

Messrs. Solomon and Hackley observed that there was a legal sanction that the Board could impose in order to stimulate responses to the survey, not only under the Securities Exchange Act, but also under the recent amendment to Regulation T, effective June 15, 1959.

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The initial reporting form for unregulated lenders extending stock market credit (F.R. 728) was then unanimously approved, with the understanding that an announcement of the adoption of F.R. 728 for inclusion in the Federal Register and a press release should be worked out by Mr. Molony in cooperation with the Legal Division, and with the further understanding that the Securities Exchange Commission should be given advance information of the Board's decision, along with pertinent documents. A copy of the letter sent on December 11, 1959, to the Presidents of all Federal Reserve Banks transmitting the form and press statement is attached as Item No. 13.

Organization of a national bank at Mountain Grove, Missouri (Item No. 14). There had been distributed a memorandum from Mr. Solomon dated November 20, 1959, recommending favorably with respect to the organization of a national bank at Mountain Grove, Missouri, concerning which Governor King had expressed certain reservations at the Board meeting of November 19 when this case was first considered. Mr. Solomon's memorandum disclosed that following the discussion at the meeting on November 19, he had talked by telephone with Mr. Kroner, Vice President of the Federal Reserve Bank of St. Louis, and told him that the Board was inclined to question whether the community could reasonably support two banks and that the Board would appreciate having the benefit of his reconsideration of this particular aspect of the application. The memorandum went on to say that subsequently Mr. Kroner reported a discussion with the supervising examiner of the Federal Deposit Insurance Corporation, who took the position that the

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existing bank was not doing a good job, stating further that the capital position of the existing bank appeared to be somewhat low and that the bank had not been receptive to suggestions for improvement.

Governor King commented that the additional information contained in Mr. Solomon's memorandum of November 20 threw new light on the situation, that he had not been aware that the Federal Deposit Insurance Corporation had criticized the existing bank in Mountain Grove, and that he consequently withdrew his objection to approving the application for the national bank charter at Mountain Grove, Missouri.

Unanimous approval was then given to a letter to the Comptroller of the Currency (attached Item No. 14) informing him that the Board recommended approval of the application in question, provided the management and investment in fixed assets are resolved to the satisfaction of his office.

Messrs. Nelson and Hostrup then withdrew from the meeting.

Proposed amendment to Regulation U. There had been distributed memoranda from Miss Hart dated October 23 and November 4, 1959, regarding a proposed interpretation and possible amendment of the definition of "carrying" under Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, as well as an undated memorandum from Mr. Hackley on the same subject.

By way of leading up to a discussion of her memoranda, Miss Hart noted that the language of section 221.3(b)(1) of Regulation U provided a loophole which the Board had not dealt with in detail. This section

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reads in part, "A loan made to a borrower when he has owned a stock registered on a national securities exchange free of any lien for a continuous period of as much as one year need not be treated as a loan for the purpose of 'carrying' that stock unless this loan is for the purpose of reducing or retiring indebtedness incurred to purchase that stock." The phrase, "reducing or retiring indebtedness incurred to purchase that stock", embodied the loophole to which she referred, said Miss Hart; and she gave an example of a person with \$10,000 in the bank who planned to build a cottage with this money but who bought the stock and then borrowed on the basis of the stock to build the cottage. She noted that this provided a loophole permitting escape from the margin requirement since the loan was not made for the purpose of reducing or retiring indebtedness incurred to purchase the stock. She then referred to reports from officers of Reserve Banks and banks generally that an unknown number of customers were following this procedure and were thereby avoiding the imposition of margin requirements on their accounts and that when consideration was being given to amending the Regulation last spring it had seemed desirable to the staff to close this loophole. The Board had adopted a revised definition of "carrying" in the amendments that became effective June 15, 1959, but this had resulted in a number of questions as to its correct interpretation and meaning. Consequently, the staff had worked out a comprehensive interpretation of the "carrying" provision of Regulation U which had been circulated to all

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Reserve Banks on August 5, 1959; and revisions were then made in the interpretation along lines suggested by these responses.

Miss Hart recalled that the New York Reserve Bank, knowing that the New York Clearing House Association had prepared "working principles" which it proposed to make available for use by banks unless the Board objected, had shown the draft interpretation to the Clearing House representatives who had requested permission to make an oral presentation to the Board of their views of this interpretation, and this had been done on September 11, 1959. Following this presentation by the New York Clearing House Association, the Board instructed the staff to reconsider the interpretation of the "carrying" provision [section 221.3(b)(1)] of Regulation U, including in its reconsideration comments on the presentation of the New York Clearing House Association and preparation of a new draft interpretation of the "carrying" provision. Meanwhile a memorandum of the views of the lending officers of the New York Clearing House banks having been received October 5, 1959, the staff had revised its draft interpretation which was presented in the memorandum of October 23, 1959, now before the Board. Miss Hart added that this draft was the product of a working group comprising representatives of the Legal Division, Division of Examinations, and Division of Research and Statistics. She went on to say that several of the most vigorous objections to earlier drafts raised by the Clearing House and by the New York and Boston Reserve Banks had been met by (1) substituting for the "third party pledgor" principle the caution to lending officers against permitting evasion of the regulation

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by the use of such a device, (2) eliminating from the scope of section 221.3(b)(1) all loans made before June 15, 1959, and (3) inserting a "proportionate" principle. She noted that this "proportionate" principle made it plain that when a borrower diverted cash needed for other purposes to the purchase of registered stock and then borrowed on stock collateral to meet the other purposes no more of his stock asset need be "sterilized" (to borrow a Clearing House term) than would be required to collateralize a loan in the amount of the diverted cash. As for the objections to the original draft interpretation of the "carrying" provision of Regulation U by the New York Clearing House Association, she observed that these were largely met by providing three exceptions, one relating to the length of time the borrower had owned the stock free and clear and the others to the purposes for which he was borrowing. She added that the final draft of the working group represented simplification and liberalization of the "carrying" amendment, which contained only three principles relating to (1) whether or not loans made after June 15, 1959, were for the purpose of carrying registered stock; (2) whether they were for emergency or seasonal purposes; and (3) whether the holding periods of stock could be "tacked" together to fulfill the one year presumption rule of section 221.3(b)(1).

Mr. Thomas withdrew from the meeting at this point.

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Miss Hart concluded by noting that there were certain other principles which had been omitted from the latest draft amendment to Regulation U, such as that concerned with the third party pledgor situation or the combining of all purpose loans secured by stock at one bank to a single borrower. So far as her memorandum of November 4, 1959, was concerned she observed that it merely attached a draft of a possible alternative to the draft interpretation on "carrying" which was submitted to the Board with the memorandum of October 23, 1959.

Mr. Hackley commented that while he did not disagree with the substance of the "principles" recommended by the staff group as attached to Miss Hart's memorandum of November 4, 1959, he had come to the conclusion as indicated in his memorandum distributed the day before to the Board, that it might be preferable to incorporate these principles in a proposed revision of the regulatory definition of "carrying", which might be published in the Federal Register for comment. He continued by noting that, as a matter of procedure, it seemed somewhat inappropriate for the Board to ask for comments regarding its interpretation of its own regulation, but that it was entirely appropriate to ask for comments on a proposed amendment to the Regulation. Furthermore, in his opinion the suggested "principles" went beyond interpretation: it seemed to him that they were in effect amendments to the definition adopted in June 1959 and that they would

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be regarded as such in any event if they were published in the Federal Register. Consequently, it would be more logical to publish them in the form of an amendment to the regulation. He concluded by noting that if the suggested approach had any merit, there was attached to his memorandum for consideration a draft of a possible revision of the regulatory definition that would incorporate the "proportionate" principle, make it clear that the "old loans" ruling had been reversed, and by means of a footnote include the "tacking" principle. In publishing any proposed definition for comment, he said, it would be possible to include in the preliminary explanatory statement of purpose examples illustrating the application of the revised definition.

Governor Shepardson asked whether it was necessary at this late stage to submit the proposed amendment to Regulation U for comment, considering the lengthy review given to the question and the fact, as he understood it, that the staff had greatly simplified its interpretation.

Mr. Hackley replied that the difficulty with this suggested approach was that only the New York Clearing House Association had been given an opportunity to comment on the Board's proposed interpretation of Regulation U, and it was a fair presumption that there would have been comments from banks in other cities had they been given a similar opportunity.

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The Secretary observed that representatives of the New York Clearing House Association, following their meeting with the Board on September 11 and submission of an additional memorandum on October 5, had requested an opportunity to study any new draft of interpretation before it was adopted in order to make known to the Board administrative and other problems that such an interpretation might present to the banks. He also noted that when President Allen of the Chicago Reserve Bank had called the Board to request that he be permitted to show the original proposed interpretation to member banks in the Chicago district, he (President Allen) had been informed that the Board did not wish to circulate the interpretation more widely than had been done pending changes in it. As a result, President Allen was under the impression that member banks in Chicago would be given a chance to look at a new draft of interpretation prior to its adoption.

Governor Mills indicated that he had a different philosophy with regard to the approach to be adopted to this question from what presumably was entailed in the Legal Division's treatment of the question, since he judged from Miss Hart's discussion that complexities arising from the refined interpretation of Regulation U resulted from a desire to catch every possible case of avoidance. He felt that both the Board and the Reserve Banks should be guided by a "rule of reason" in their examination of banks extending this type of credit in order to create a reasonable flexibility in the administration of the law. He said

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that to split a loan collateralized by registered securities into two or three different parts and to ask the lending officer of a bank to inject into the thinking of a borrower his interpretation of the borrower's intentions would produce embarrassments reacting unfavorably on the standing of the Board and would open it to the accusation that it had passed a Draconic regulation. He suggested that the Board might let nature take its course, and should flagrant cases of avoidance of the Regulation by member banks be brought to the Board's attention, a philosophy of administration could be developed without the detail involved in the interpretations submitted to the Board for its consideration.

Chairman Martin then asked what objections might be raised to publication for comment of Mr. Hackley's proposed amendment to Regulation U.

Governor Mills referred again to the memorandum prepared by lending officers of members of the New York Clearing House Association under date of October 5, 1959, which, in his opinion, posed the problem that would fall on commercial banks and lending officers of those banks if they were required to attempt to follow any requirement such as the proposed interpretation of the definition of "carrying." In some ways, he said, it was almost impossible to see how banks could apply this interpretation. With respect to Chairman Martin's specific question, it was Governor Mills' view that perhaps the best thing would be to do

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nothing at this point. He reiterated the view that there was not a great deal of evasion of the objectives of Regulation U and certainly not enough to warrant inquiries of the sort implied in the proposed interpretation into the practices followed by commercial banks and their customers.

Governor Robertson commented that he felt the staff had made a real contribution to better understanding of the problems involved in administering Regulation U. On the question whether anything should be issued at the present time, Governor Robertson said that in his opinion it would be unfair not to put out something in the near future in view of the fact that questions were being raised regarding the interpretation of the June 15 amendment, and particularly since a proposed interpretation had gotten some circulation outside the Federal Reserve System. Commercial banks were in a position, he noted, where they did not wish to run the risk of violating a regulation that had the force of law. The New York Clearing House representatives obviously had attempted to present some of the problems of the banks both in their meeting with the Board on September 11 and in their subsequent memorandum to the Board. In Governor Robertson's opinion, the wisest course would be to follow the suggestion that Mr. Hackley had made of issuing for comment a proposed amendment to the regulation, thus giving interested parties an opportunity to make their

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views known to the Board. He also suggested that some explanation of the purpose of the amendment should accompany its publication.

After Mr. Hackley stated that it was assumed a notice of publication in the Federal Register would include an appropriate statement of the reasons for the amendment and of its objectives, Chairman Martin commented that the Board had gotten into a procedural tangle in this matter. He thought it probably had made a mistake in changing the definition of carrying or in starting the interpretation procedure with respect to that amendment to the regulation. The problem now, however, was how to extricate the Board from its position in the best way possible from the public relations standpoint. This was no reflection on the staff, he said, but to the extent it was a reflection on anybody, it was on the Board. In his judgment, the simplest thing to do probably would be to follow Mr. Hackley's suggestion and to publish a proposed amendment to the regulation so that all interested persons would have an opportunity to study and comment on the proposal. The Chairman said he agreed with the general approach that Governor Mills had indicated, but he did not know how the Board could get out of the present tangle without doing something. A good many of the responsible members of the financial community were critical of what the Board had done in this matter, and if it did nothing to move out of its present position it would lose more of its standing with individuals in New York and

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elsewhere who had devoted a good deal of time and thought to the practical operating problems and who, in his opinion, honestly wanted to be helpful.

Governor Shepardson referred to Chairman Martin's earlier comment that perhaps the Board had made a mistake in tackling the definition of carrying in the first place. He recalled that at a recent discussion of this matter he had made the comment that the Board seemed to be trying to build a net to catch minnows instead of fish that amounted to something. If the Board had made a mistake on this question, he wondered whether there was any more difficulty in reversing itself completely than there would be in trying to keep modifying its position to something workable.

At Chairman Martin's suggestion, Mr. Hackley commented on this point, stating that it would be possible for the Board to go back to the previous definition of carrying and to rely entirely on the banks to apply that definition through use of a purpose statement. Mr. Hackley noted that the amendment that had become effective June 15 grew out of an attempt to eliminate what were recognized as legitimate methods of avoidance of the regulation. It was not known how much actual avoidance occurred, and the question came down to a matter of Board policy. The question was whether the complications that had arisen out of the recent amendment outweighed the advantages that that amendment was designed to produce.

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Governor King said that perhaps the best hope was that this regulation would have the kind of effect a policeman is supposed to have when he stands on the corner--that most persons would be deterred from violating the law or regulation. There would be a few who would try to avoid the regulation, but he was inclined to agree with the general position indicated by Governor Mills on the amount of evasion. As to what should be done, Governor King said that he would not object to a complete retreat from the definition of carrying that became effective June 15, but he would go along with a proposal to publish for comment an amendment along the lines that Mr. Hackley had suggested. Governor King added that he would not approve the issuance of an interpretation such as had been suggested, since he believed a matter of this importance should be handled by an amendment to the regulation rather than by a ruling of the Board.

Chairman Martin said that he thought complete reversal of the Board's June 15 amendment might have fairly logical implications. However, the Board did not want to do anything that might encourage violations or evasions of the regulation and a complete retreat from the June 15 amendment could lead to that view. A good many people had been studying the changes in the regulation that became effective in June, and this had had a psychological effect. The Chairman said he did not think the Board should lose the benefit of that effect, and

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on the whole, he believed that the approach suggested by Mr. Hackley of publishing a proposed amendment to the regulation was perhaps as good a move as any. This would give everybody concerned a chance to think about the matter and to comment on difficulties they might anticipate.

Governor Balderston stated that he felt there had been a heavy flow of credit into the stock market prior to the amendments to the regulation last spring that caused the Board to have reason to question whether the regulation was sufficiently effective. The net gain since the amendments were adopted, in his opinion, had come in the discussions that had arisen out of those amendments. He would now put into the Federal Register a notice regarding Mr. Hackley's proposed amendment to the definition of carrying, with the thought that such a notice would bring about further discussion. It seemed to him better to rely upon the bankers to do what they believed to be reasonable under a clear and simple definition of carrying, rather than to carry the matter into great detail. He concurred in the "little fish" philosophy expounded by Governor Shepardson, and he would vote to approve the suggestion made by Mr. Hackley.

Chairman Martin then suggested that Mr. Hackley be authorized to review his proposed amendment to the regulation with the members of the staff, with the understanding that if he wished to bring the matter back to the Board before submission of the proposed amendment for publication in the Federal Register he was at liberty to do so. Governor

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Mills suggested that it would be desirable for any revision made in the proposed amendment to come to the Board's attention before publication, and there was general agreement with this suggestion. Accordingly, Mr. Hackley was requested to review the proposed amendment in whatever manner seemed desirable and to submit it for the consideration of the Board.

All of the members of the staff excepting Messrs. Sherman and Fauver then withdrew from the meeting, and Mr. Johnson, Director, Division of Personnel Administration, entered the room.

Appointment of director. Governor Shepardson said that, pursuant to the Board's action on October 14, 1959, he had ascertained through Deputy Chairman Russell of the Federal Reserve Bank of Chicago that Mr. James H. Hilton, President of Iowa State University, would accept appointment as a Class C director of that Bank for the three year term beginning January 1, 1960. It would now be in order, therefore, to take the usual formal steps for completing the appointment.

Salaries of officers at St. Louis Bank (Item No. 15). Chairman Martin and Governor King reported on a telephone conversation this morning with President Johns of the St. Louis Bank regarding his proposals for salaries for three officers at the Memphis Branch, pursuant to the understanding at the meeting on November 30, 1959. At the conclusion of the report, unanimous approval was given to a

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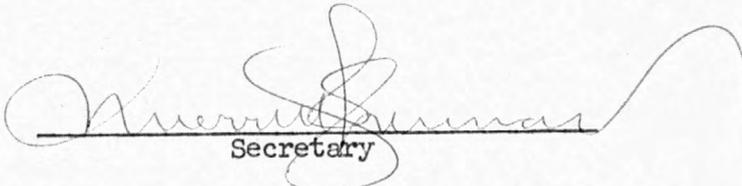
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letter to Mr. Johns, a copy of which is attached as Item No. 15, approving payment of salaries to Messrs. DeVos, Vice President and Manager; Monaghan, Cashier; and Breen, Assistant Cashier, for the period December 1, 1959 through December 31, 1959.

Messrs. Sherman, Fauver, and Johnson then withdrew and the Board went into executive session.

Following the meeting, Governor Shepardson informed the Secretary that during the executive session the Board: (1) noted the request of Winfield W. Riefler for retirement effective December 31, 1959; (2) appointed Ralph A. Young Adviser to the Board, with no change in salary, effective January 1, 1960; (3) appointed Guy E. Noyes Director, Division of Research and Statistics, at an annual salary rate of \$18,000, effective January 1, 1960; and (4) changed the title of Woodlief Thomas from Economic Adviser to the Board to Adviser to the Board, effective January 1, 1960.

The meeting then adjourned.


Secretary

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

Item No. 1
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959.

The First National City Bank of New York,
55 Wall Street,
New York 15, New York.

Gentlemen:

In view of the request contained in your letter of October 26, 1959, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors extends to December 31, 1960, the time within which your Santos, Brazil, branch may occupy temporary quarters, as approved by the Board on July 16, 1957, at Rua 15 de Novembro No. 176, pending completion of construction of new and larger quarters at the permanent branch site, at Rua 15 de Novembro No. 119.

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
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 1, 1959.

Mr. Howard D. Crosse,
Assistant Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

This refers to your letter of October 14, 1959, with respect to the execution of Forms P-3 and P-4 (exhibits L and N) by certain affiliated companies of Financial General Corporation in connection with an application by such corporation for a voting permit.

It appears that Financial General Corporation has requested permission to obtain an "agreement, consent and approval" by each affiliated company to permit examinations and audits by the Federal Reserve System and authority for all State and Federal authorities to furnish the Federal Reserve System with reports or any other information which may be contained in their files and records in lieu of having each affiliated company execute individual Forms P-3 and P-4.

There would seem to be no serious objection to following this procedure provided clause (1) of the proposed letter is changed to include agreement to furnish reports of condition. This clause covers the agreement usually contained in Form P-3 and should include both submission to examinations and furnishing reports of condition. Also, the caption "consent" for the execution by the affiliated company should be omitted entirely or should be changed to follow the terms of the letter, namely, "agreement, consent and approval", and a place for date of execution and the corporate seal should be added.

If a letter of explanation, such as that proposed, is sent by the Corporation to each affiliated company, it is not apparent that

Mr. Howard D. Crosse

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obtaining the "agreement, consent and approval" would be less burdensome or cause less misunderstanding than execution of Forms P-3 and P-4 by the individual companies. However, it would constitute substantial compliance with the requirements of the Board's regulation and no objection will be raised to following this procedure.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959.



Board of Directors,
Central Trust Capital Bank,
Harrisburg, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors has approved an extension of time until December 23, 1960, in which Central Trust Capital Bank may establish a branch in the Colonial Park Shopping Center, Jonestown Road and Colonial Road, Lower Paxton Township, Dauphin County, Pennsylvania. The establishment of this branch was authorized in a letter dated December 23, 1957.

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
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 1, 1959.

Mr. Arthur B. Van Buskirk,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Van Buskirk:

In accordance with the request contained in your letter of November 12, 1959, the Board of Governors approves the appointments of Mr. Donald C. Robinson as Assistant Federal Reserve Agent, and of Messrs. Donald J. Clink and Clarence J. Goudreau as Alternate Assistant Federal Reserve Agents. It is understood that Mr. Goudreau is being relieved of his present position of Assistant Federal Reserve Agent because of his uncertain health.

This approval is given with the understanding that these appointees will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of their duties, except that, during the absence or disability of the Federal Reserve Agent, or a vacancy in that office, the Assistant Federal Reserve Agent will be responsible solely to the Board of Governors and the Alternate Assistant Federal Reserve Agents will be responsible to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of their duties as Assistant and Alternate Assistant Federal Reserve Agents, respectively, the appointees may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with their duties as Assistant and Alternate Assistant Federal Reserve Agents.

It will be appreciated if these new appointees are fully informed of the importance of their responsibilities as members of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Mr. Arthur B. Van Buskirk

- 2 -

It is assumed that Messrs. Robinson, Clink, and Goudreau will execute the usual Oath of Office, which will be forwarded to the Board of Governors along with the notification of the effective dates of their appointments.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959.

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of November 9, 1959, the Board of Governors approves the proposal that Blue Shield coverage be changed from the standard form of contract into an Employer Liability Agreement with the Minnesota Medical Service, Inc.

This approval is given with the understanding that the proposed self-insurance program will not result in the Bank's absorption on the average of more than two-thirds of total cost of such coverage.

It is noted that the contemplated cost of this coverage to the Bank is about \$13,400 per year.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 6
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 1, 1959.

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

This refers to your letter of November 13, 1959, presenting the question whether the Republic National Bank may pay a time certificate of deposit, issued September 15, 1959, to Mr. Twyman H. Dew, prior to its maturity, February 15, 1961, in accordance with section 4(d) of Regulation Q.

It is understood that Mr. Dew accepted this certificate as a means to recover the amount of a debt owed him, represented by a note due February 15, 1961, and that since the inception of such debt, he has encountered a serious financial emergency occasioned by his wife's illness and loss of income which has forced him to borrow to meet current living expenses and pay medical bills. Accordingly, it is Mr. Dew's position that this situation has resulted in an emergency, and he has requested the bank to pay the certificate before maturity.

In the circumstances, the Board will not object to the payment of the certificate of deposit prior to its maturity, provided, of course, that all the requirements of the regulation are met. Since a national bank is involved, a copy of this letter is being furnished the Comptroller of the Currency.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 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 November 17, 1959,
concerning the application of the First State Bank, Spearman,
Texas, for continuance of deposit insurance after withdrawal
from membership in the Federal Reserve System.

No corrective programs have been urged upon the bank
or agreed to by it which, in the opinion of the Board of Governors,
it would be considered desirable to incorporate as conditions to
the continuance of deposit insurance.

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
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 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 November 17, 1959, concerning the desire of Lafayette Savings Bank, Lafayette, Indiana, to continue as an insured bank following its withdrawal from membership.

No corrective programs have been urged upon the bank that, in the opinion of the Board of Governors, it would be desirable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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. 9
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959.

The Honorable Glenn E. Heitz,
Acting Governor,
Farm Credit Administration,
Washington 25, D. C.

Dear Governor Heitz:

This is to thank you for your letter to Chairman Martin of November 10, 1959, regarding the recent amendment to the Board's Regulation R which appeared in the Federal Register on October 30, 1959. Although the amendment refers to obligations of the Central Bank for Cooperatives and not to the regional banks for cooperatives, the Board agrees with you that consolidated debentures issued jointly and severally by the Central Bank and the 12 regional banks for cooperatives are embraced within the exception provided by the amendment, since the Central Bank, as well as each regional bank, is individually liable for such debentures.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959.

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

Attention Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated August 25, 1959, enclosing copies of an application to organize a national bank at Marshfield, Missouri, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation made by an examiner for the Federal Reserve Bank of St. Louis indicates that the proposed capital structure would be adequate in relation to the anticipated volume and character of business. The prospects for earnings are fair and the proposed board of directors would seem to be satisfactory. While definite arrangements had not been made for executive management, it is assumed that this matter could be resolved favorably. However, on the basis of the information available it appears that the existing bank in Marshfield is meeting the banking needs of the community and there is not sufficient need for an additional bank in the area at this time. Accordingly, 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.

UNITED STATES OF AMERICA

Item No. 11
12/1/59

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 'In the Matter of the Application of'
 'BANK STOCK CORPORATION OF MILWAUKEE'
 'Pursuant to section 3(a)(1) of the '
 'Bank Holding Company Act of 1956 '

ORDER EXTENDING TIME WITHIN WHICH TO
 BECOME A BANK HOLDING COMPANY

There having come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842) and section 4(a)(1) of the Board's Regulation Y (12 CFR 222.4(a)(1)), an application by Bank Stock Corporation of Milwaukee for the Board's approval of action whereby Applicant would become a bank holding company through the acquisition of 80 per cent or more of the outstanding voting shares of Marshall and Ilsley Bank and Northern Bank, both of which are located in Milwaukee; a Notice of Tentative Decision referring to a Tentative Statement on said application having been published in the Federal Register on August 11, 1959; said Notice having provided interested persons an opportunity, before issuance of the Board's order, to file objections or comments upon the facts stated and the reasons indicated in the Tentative Statement; and the time for filing such objections and comments having expired and no objections or comments having been filed;

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And said application having been granted by order of the Board dated September 3, 1959, with a proviso that said acquisition be completed within three months from that date;

And Bank Stock Corporation of Milwaukee having applied to the Board for a one-month extension of the period prescribed in said proviso, and it appearing that such an extension would not be inconsistent with the public interest;

IT IS HEREBY ORDERED, that the time in which said acquisition may be completed is extended to January 4, 1960.

Dated at Washington, D. C. this 1st day of December, 1959.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 12
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 1, 1959.

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

This will acknowledge your letter of November 4, 1959, respecting the reply of The Continental Bank and Trust Company, Salt Lake City, Utah, to the examination report as of May 25, 1959.

The Board concurs in your view that the Bank's comments about the Enid B. Cosgriff loan are evasive and without substance. There would appear to be no relationship between this loan or the facts appurtenant to it and the capital adequacy proceeding. It is assumed that you will renew your request that loans to members of the Cosgriff family should be on an adequately secured basis or, if unsecured, supported by a satisfactory financial statement and with a definite liquidation program. This recommendation was part of the Board's letter of July 29, 1959.

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. 13
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1959.



Dear Sir:

The Board of Governors has approved a new statistical reporting requirement under which all lenders, except banks and brokers, who extend credit to finance the purchasing or carrying of registered stock will be required to supply certain information on their assets and liabilities. These reports are requested pursuant to section 221.3(j) of Regulation U, as amended effective June 15, 1959. A standard form (FR 728) has been developed which eligible respondents must use in filing the required information. This form, a copy of which is enclosed, has been approved by the Budget Bureau.

It is contemplated that a press statement will be issued by the Board, probably for release on Tuesday, December 15, 1959, announcing the new requirement and advising that reporting forms are available at Federal Reserve Banks. A draft of the press release and a sample form are enclosed. An initial supply of forms is being mailed under separate cover. If additional copies of the form are needed, Reserve Banks should duplicate them directly.

Forms completed by respondents are to be returned by them to the Reserve Banks, who in turn should forward the forms to the Board of Governors.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 14
12/1/59



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 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 August 3, 1959, enclosing copies of an application to organize a national bank at Mountain Grove, 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 discloses generally favorable findings with respect to the proposed capital structure, future earnings prospects, and needs of the community. This report disclosed some question as to the adequacy of the banking quarters to be leased and while the proponents indicated that some consideration might be given to the construction of quarters, no final decision had been reached as to the investment to be made in fixed assets. From the information available, the organizers and board of directors are well regarded locally but there is some question as to the qualifications of the proposed executive officer to supply the desired management. After considering all of the information available, the Board of Governors recommends approval of the application to organize a national bank at Mountain Grove, Missouri, provided the management and investment in fixed assets are resolved to the satisfaction of your office.

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. 15
12/1/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1959

CONFIDENTIAL (FR)

Mr. Delos C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of St. Louis assigned to the Memphis Branch, for the period December 1 through December 31, 1959, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of November 12, 1959:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
E. Francis DeVos	Vice President and Manager	\$15,000
Benjamin B. Monaghan	Cashier	10,000
John Francis Breen, Jr.	Assistant Cashier	8,500

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.