

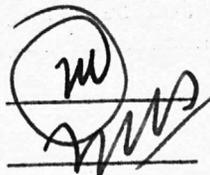
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The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on February 8, 1960, which you have previously initialed, have been amended at the request of Governor Mills to revise his remarks on pages 7 and 8.

If you approve these minutes as amended, please initial below.

Chairman Martin

Governor Szymczak



Minutes for February 8, 1960.

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

MM

Gov. Szymczak

MS

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Monday, February 8, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Marget, Director, Division of International
Finance
Mr. Garfield, Adviser, Division of Research and
Statistics
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Robinson, Adviser, Division of Research and
Statistics
Mr. Williams, Associate Adviser, Division of
Research and Statistics
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Hersey, Associate Adviser, Division of
International Finance
Mr. Landry, Assistant to the Secretary

Messrs. Eckert, Gehman, Keir, Weiner, Fisher,
Wernick, and Misses Dingle and Stockwell,
of the Division of Research and Statistics

Messrs. Irvine, Katz, Wood, and Maroni, of the
Division of International Finance

Economic review. The staffs of the Divisions of International
Finance and Research and Statistics presented a review of international
and domestic conditions and developments.

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At the conclusion of this presentation all of the members of the staff with the exception of Messrs. Sherman, Thomas, Young, Shay, Molony, Noyes, Marget, Furth, and Landry withdrew from the meeting and Messrs. Hackley, General Counsel, Farrell, Director, Division of Bank Operations, Solomon, Director of the Division of Examinations, Hexter, Assistant General Counsel, and Nelson, Assistant Director, Division of Examinations entered the room.

Items circulated to the Board. The following items, which had been circulated to the members of 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 Wellesley Trust Company, Wellesley Hills, Massachusetts, approving the establishment of a branch at 15 Central Street.	1
Letter to The Connecticut Bank and Trust Company, Hartford, Connecticut, consenting to its proposed merger with The Groton Bank and Trust Company, Groton, Connecticut, and approving the establishment of a branch in Groton by the continuing bank.	2
Letter to the Lawrence Savings and Trust Company, New Castle, Pennsylvania, declining to grant a further extension of time to establish a branch in the Shenango Plaza Shopping Center.	3
Letter to the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in Jefferson County.	4
Letter to The Hartley National Bank of Bedford, Bedford, Pennsylvania, approving its application for fiduciary powers.	5

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Item No.

- Letter to the Federal Deposit Insurance Corporation regarding the application of Merchants State Bank, Rhinelander, Wisconsin, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System. 6
- Letter to the Commercial State Bank of El Campo, El Campo, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. 7
- Telegram to the Federal Reserve Bank of New York approving its granting a three-month standby loan or loans on gold not to exceed a total of \$100 million to the Banco Central de Venezuela. 8

Ruling whether "custodian" may invest funds in common trust

fund (Item No. 9). There had been distributed under date of January 27, 1960, a memorandum from the Division of Examinations relating to a request from the Comptroller of the Currency for the Board's opinion on the question whether a national bank acting as "custodian" under the Uniform Gifts to Minors Act might invest funds it held in such capacity in a common trust fund which had been established and maintained in conformity with Section 17 of the Board's Regulation F, Trust Powers of National Banks.

Mr. Solomon observed that Messrs. Masters and Hexter had collaborated on this question and that Mr. Masters had written the memorandum before the Board. Since Mr. Masters was not present, he suggested that Mr. Hexter comment on the problem.

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Mr. Hexter noted that section 584 of the Internal Revenue Code of 1954 and the Board's Regulation F each defined a common trust fund as a fund maintained by a bank "exclusively for the collective investment and re-investment of moneys contributed thereto by the bank in its capacity as [a] trustee, executor, administrator or guardian." He noted further that the Uniform Gifts to Minors Act had been adopted in almost identical language in all fifty States and the District of Columbia and that it provided the means by which irrevocable gifts of securities or other assets might be made to a minor without the formality and expense of a guardianship or trust. Under the provisions of the Uniform Act, the so-called "custodian" possessed many of the powers and duties usually associated with guardians and trustees and, in the case of "custodian" appointments under the Uniform Gifts to Minors Act, a true fiduciary relationship was involved not substantially different from that involved in guardianship or trustee appointments which were eligible for common trust fund participation both under the Board's Regulation and the Internal Revenue Code. It was the staff view, he said, that the fiduciary character of custodial appointments under the Act and the powers and functions of a trust institution acting under such appointments were wholly consistent with the intent and purposes of applicable provisions of the Board's Regulation F and the Internal Revenue Code as well as with the fiduciary capacities specifically cited therein. However, since section 584 of the Internal Revenue Code

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of 1954 did not include the word "custodian", it was conceivable that the Internal Revenue Service might take the position that funds held under the Uniform Gifts to Minors Act did not fall within the definition of a common trust fund, with resultant severe tax consequences for the bank acting as "custodian." Therefore, if the Board agreed with the staff approach that would give a favorable ruling in response to the inquiry from the Comptroller of the Currency, the staff recommendation was that a letter be addressed to the Commissioner of Internal Revenue requesting the views of that office on the Board's proposed ruling and, in the event the reply from Internal Revenue Service did not take a different view, the Comptroller be advised of this ruling.

There being concurrence by the Board in the proposed ruling, unanimous approval was given to the recommended procedure as well as to a letter to the Commissioner of Internal Revenue asking whether the proposed interpretation was in harmony with the views of the Internal Revenue Service. This letter is attached Item No. 9.

Mr. Nelson, Assistant Director, Division of Examinations, withdrew from the meeting and Mr. Ford, Economist, Division of Research and Statistics, entered at this point.

Letter to Chairman Spence regarding bill H. R. 9511. Pursuant to the understanding reached at the meeting on February 2, 1960, there had been distributed a redraft of letter to Congressman Spence, Chairman of the Banking and Currency Committee of the House of Representatives,

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reporting on H. R. 9511, "To Provide for the Retirement of \$15 billion of the Interest Bearing Debt of the United States," introduced by Congressman Patman.

Several changes were suggested in this draft of letter including deletion of a reference to the Board's views regarding legislation that would provide a statutory requirement for payment to the Treasury of Reserve Bank earnings.

Following the discussion, it was understood that another draft of letter would be prepared by the staff and placed on the agenda for consideration at an early meeting of the Board.

Messrs. Shay, Molony, Farrell, and Ford withdrew from the meeting at this point.

Meeting with representatives of California Bank. Mr. Solomon reported that President Mangels of the Federal Reserve Bank of San Francisco had informed Mr. Hackley and himself this morning of a telephone call that he received last week from Mr. King, President of California Bank, who stated that both his bank and the Department of Justice were interested in winding up the pending litigation between the Department and Firstamerica Corporation. Mr. Mangels had suggested that Mr. King should talk with members of the Board's staff about this matter, and Messrs. King, Tweter, Executive Vice President of California Bank, and Gesell, counsel for that Bank, had requested a meeting this afternoon with President Mangels and members of the Board's staff to

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discuss a proposal for a compromise settlement of the litigation. The general idea of the proposal was that certain of the branches of California Bank and possibly some of First Western Bank and Trust Company be included in a new bank which would then be disposed of through sale or "spin-off" involving between \$450 million and \$650 million of deposits in what would be a third State-wide system. Mr. Solomon said that as things now stood, arrangements had been made for a meeting at three o'clock this afternoon in the Board building to be attended by Mr. Mangels, Messrs. King, Tweter, and Gesell, and members of the Board's Legal and Examinations Divisions, at which the Board's representatives would listen to whatever proposals might be made.

Governor Mills inquired whether this would be a proper procedure. This was a case where the Board had already taken a position, he said, and now the parties to the Federal case were proposing a compromise. Any such compromise would have to be decided between the Department of Justice and Firstamerica Corporation, which again would set the Board and System entirely aside and apart from it. It was difficult for him to foresee in what manner the Federal Reserve System would be involved in consenting to branches or in other aspects of the case if, at some later time, Firstamerica were to create a new bank. Governor Mills said he had great respect for Mr. Gesell, but he was fearful of having any conversations with Firstamerica representatives, since that might be construed by Firstamerica Corporation as an indication of favor on the part of the Board. In his opinion, the Board had allowed itself to get into an embarrassing position

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when it permitted Mr. Morgenstern of Old Kent Bank and his attorney to talk with the Board last July while that case was in pendency. Governor Mills stated that he would let Firstamerica put in writing any requests or questions and have the Board consider them at arm's length; if the Board permitted this meeting, it might find that it had gotten involved in the pending litigation in some way.

Chairman Martin commented that it was difficult for the Board to refuse to grant the member bank's request for a meeting this afternoon; such an action would virtually amount to slamming the door on any proposal the bank had in mind and could be interpreted as reflecting an unfavorable Board attitude toward the bank. He would hesitate to have the member bank say that their representatives could not get a meeting with the Board or its staff, particularly when one had tentatively been set up. He felt, however, that the staff should limit its participation in the meeting to listening, that it should not take a position on any proposal, and that it should report back to the Board on any matters that might concern it.

Mr. Hexter observed, and Mr. Solomon agreed, that Firstamerica's proposal involved plans for changing the structure of a State member bank, that for this reason the Board had a valid interest in such plans from a bank supervisory point of view, and that meeting with the representatives of California Bank would not need to involve the Board in the litigation pending between Firstamerica and the Justice Department.

Mr. Hackley concurred, noting that the sole purpose of the proposed meeting as he understood it was to inform the Board of the nature of the Firstamerica proposal relating to California Bank without

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any indication being expected from the Board as to its position in this regard. It seemed likely that Firstamerica and California Bank wished to determine whether any legal obstacle to their plan existed under the Bank Holding Company Act of 1956.

Governor King said that he thought the procedure suggested by Chairman Martin was about the only course the Board could appropriately follow under the circumstances, and he would emphasize that the Board's representatives should be there to listen and report.

Governor Shepardson said that apparently the request for a meeting represented a desire by Firstamerica and California Bank to obtain technical information from the Board's Legal and Examinations' staff. In his view, conveying this type of information did not constitute a judgment as to whether these parties should or should not put their plan into effect, and he was unable to see how such a meeting could compromise the Board's position.

Governor Szymczak said he felt the Board's staff should meet with the member bank's representatives, if for no other reason, because the Board should be informed of any plan such as Mr. Solomon described.

It was then agreed that the staff proceed with the meeting as outlined, it being understood, as expressed by Governor Robertson, that the holding of the meeting was not an indication that the Board was espousing any proposal. It was further understood that the staff would make it clear to Messrs. King, Tweter, and Gesell that no one

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present at the meeting was in a position to speak for the Board or to express the views of the Board on any question.

Meeting regarding loans on Government securities. Governor Robertson stated that a luncheon meeting would be held today in the Board building with Messrs. Wolcott and Greensides of the Federal Deposit Insurance Corporation and Messrs. Gidney and Jennings of the Office of the Comptroller of the Currency present along with himself and Messrs. Young, Koch, Solomon, and Hexter to discuss the possibility of working out a plan for margin requirements on loans extended on Government security collateral, in line with a recommendation contained in the Treasury-Board staff report of last July. He hoped other Board members would find it possible to attend.

Mr. Hexter withdrew from the meeting at this point.

Directors' Day Program. Governor Shepardson referred to the tentative agenda for this year's Directors' Day Program, discussed at the meeting on February 4, 1960. He said it was now planned to have the economic review in the form of three papers to be presented on Thursday, February 18, 1960, by Messrs. Keir and Axilrod of the Division of Research and Statistics, and Mr. Reynolds of the Division of International Finance. He said that he was mentioning this fact since the question had been raised as to whether it might be preferable for some of the more senior members of the staff to present this material. Governor Shepardson also noted that none of the Division heads would

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have assignments on the program this year, except for the possibility that they would be asked to give very brief statements regarding the functions of their Divisions. He felt, however, that it would be appropriate to proceed with the plans he had described.

None of the members of the Board indicated objection to the plans outlined by Governor Shepardson.

The meeting then adjourned.

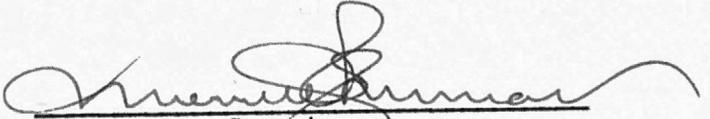
Secretary's Notes: Pursuant to the action taken by the Board on January 27, 1960, Chairman Martin had ascertained that Mr. Atherton Bean, President, International Milling Company, Minneapolis, Minnesota, would accept appointment, if tendered, as a Class C Director of the Federal Reserve Bank of Minneapolis for the remainder of the term expiring December 31, 1962. Accordingly, a telegram was sent today to Mr. Bean notifying him of his appointment.

Governor Shepardson today approved on behalf of the Board the recommendations contained in a memorandum from Mr. Johnson, Director, Division of Personnel Administration, dated February 8, 1960, that John N. Kiley, Jr., Assistant Director, Division of Bank Operations, be nominated to attend the Conference on Executive Leadership in Democratic Government sponsored by The Brookings Institution, to be held in Williamsburg, Virginia, from March 20 to April 1, 1960, and that transportation and other expenses incidental to his attendance at the Conference be paid by the Board, with the understanding that the \$400 assessment charged each participant to cover the costs

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of developing background materials used during the Conference, and the fees and travel costs of speakers, would be paid by the Board.



Secretary

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

Item No. 1
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960.

Board of Directors,
Wellesley Trust Company,
Wellesley Hills, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors approves the establishment of a branch at 15 Central Street, Wellesley, Massachusetts, by Wellesley Trust Company, Wellesley Hills, Massachusetts. This approval is given provided the branch is established within nine months from the date of this letter and formal approval of State authorities is effective at the time the branch is established. It is understood that upon the establishment of this branch, the branch being operated at 986 Worcester Street, Wellesley, Massachusetts, will be discontinued.

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
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960.



Board of Directors,
The Connecticut Bank and Trust Company,
Hartford, Connecticut.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston and subject to the circumstances described therein, the Board of Governors of the Federal Reserve System hereby gives its written consent, under the provisions of Section 18(c) of the Federal Deposit Insurance Act, to the merger of The Groton Bank and Trust Company, Groton, Connecticut, with and into The Connecticut Bank and Trust Company, and approves the establishment of a branch by the continuing bank at 738 Long Hill Road, Groton, Connecticut, incident to the merger.

This consent is given provided:

1. The merger is effected substantially in accordance with the Agreement of Merger dated December 14, 1959, and the transactions are effected within six months from the date of this letter;
2. Shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition;
3. Approval of State authorities is in effect 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. 4
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960.

Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch three miles east of Louisville on Taylorsville Road in Jefferson County, Kentucky, provided the branch is established within 12 months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 8, 1960.

Board of Directors,
The Hartley National Bank of Bedford,
Bedford, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The Hartley National Bank of Bedford authority to act, when not in contravention of State or local law, as Registrar and Trustee of bond issues of municipal corporations, municipal authorities, and other authorities organized under the laws of the Commonwealth of Pennsylvania. The exercise of such rights shall 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 certificate covering such authorization is enclosed.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

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

Item No. 6
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960.

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

Dear Mr. Wolcott:

Reference is made to your letter of January 26, 1960, concerning the application of Merchants State Bank, Rhinelander, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

It was noted in the last report of examination as of August 31, 1959, that the bank had not been taking adequate depreciation on its fixed assets. No other corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit 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. 7
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960.

Board of Directors,
Commercial State Bank of El Campo,
El Campo, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter, together with the accompanying resolution dated January 12, 1960, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



TELEGRAM
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 8
2/8/60

February 8, 1960.

SANFORD - NEW YORK

Your wire February 4. Board approves granting of a loan or loans on gold by your Bank to the Banco Central de Venezuela not to exceed a total of \$100 million on the following terms and conditions:

- A. Such loan or loans to be made up to 98 per cent of the value of gold bars set aside in your vaults under pledge to you;
- B. Such loan or loans to mature in three months with option to repay at any time before maturity; both the loans and the repayments to be made in multiples of \$5 millions;
- C. To bear interest at the discount rate of your Bank in effect on the date on which such loan or loans are made;
- D. To be requested and made at any time no more than three months after the date of your cable to the Banco Central notifying it of the approval of the loan arrangement, with a commitment fee to be charged at the rate of $1/4$ of 1 per cent per annum for the time that the facility or any part thereof remains unused.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 9
2/8/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 8, 1960

The Honorable Dana Latham,
Commissioner of Internal Revenue,
Washington 25, D. C.

Dear Mr. Latham:

A national bank has raised the question whether funds held by a bank as "custodian," under the Uniform Gifts to Minors Act, may be invested in a common trust fund maintained by the bank pursuant to section 17 of Regulation F (12 C.F.R. Par. 206.17).

The Uniform Gifts to Minors Act, or substantially similar legislation, has been adopted in all 50 States and the District of Columbia. Under the provisions of such legislation, property may be held by a trust institution (in this case a national bank) as "custodian."

The "custodian" capacity defined in the legislation does not indicate a bailee function or the mere holder of physical property (which is the meaning most commonly associated with this term), but involves powers and functions of a true fiduciary character, including, among others, the powers to invest and reinvest, to exercise voting rights and to make discretionary payments of principal and income.

Section 584(a) of the Internal Revenue Code of 1954, and section 17(a) of Regulation F, define the term "common trust fund" to mean a fund maintained by a bank

"exclusively for the collective investment and reinvestment of moneys contributed thereto by the bank in its capacity as [a] trustee, executor, administrator, or guardian. . . ."



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Honorable Dana Latham

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In view of the objectives of this provision of the Code and of Regulation F and the provisions of legislation such as the Uniform Gifts to Minors Act, it appears to the Board that moneys held by a bank as "custodian" under such legislation are held "in its capacity as a trustee, executor, administrator, or guardian."

The Board contemplates taking this position, but before doing so it would appreciate being informed whether the proposed interpretation is in harmony with the views of the Internal Revenue Service, or whether the Service has any objection or question with respect thereto.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.