

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, July 8, 1949. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Vest, General Counsel
Mr. Leonard, Director, Division of Bank
Operations
Mr. Young, Associate Director, Division
of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Baumann, Assistant General Counsel

The following letter prepared in accordance with the discussion at the meeting of the Board on July 7, 1949, to be sent to the spokesmen for the various groups which had conferred with representatives of the Board during the past year on bank holding company legislation, was read and upon motion by Mr. Clayton, was approved unanimously, with the understanding that copies of the letter and enclosure would be sent to the Presidents of all of the Federal Reserve Banks and the members and secretary of the Federal Advisory Council:

"On June 17, 1949, Chairman McCabe sent to you a revised draft of the bank holding company bill, in order that you and others in your group who discussed the matter in Washington might be informed concerning the proposed legislation before it was introduced in Congress.

"Since the revised draft was sent to you, questions have been raised regarding one of the provisions

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"of the bill, subsection (e) of section 4, which would exempt investment companies registered with the Securities and Exchange Commission pursuant to the Investment Company Act of 1940 from the provisions of section 4 requiring the divorcement of nonbanking interests. It has been brought forcibly to our attention that subsection (e) of section 4 would make it possible for bank holding companies to continue to control business enterprises unrelated to banking on a much broader basis than was intended when the draft was under discussion, and accordingly that subsection (e) is not compatible with the purposes of section 4. It is clear from recent discussions with representatives of the Securities and Exchange Commission that the objectives of the Investment Company Act, which is designed primarily to protect investors in investment company securities, are so different from those of section 4 of the bank holding company bill that a requirement of registration under the Investment Company Act would have little effect in accomplishing the purposes of the bank holding company legislation.

"As a result of further consideration of this matter, a proposed amendment has been prepared as a substitute for subsection (e). We are enclosing copies of the proposed substitute herewith so that you and the others in your group who participated in the informal discussions of the bill in Washington some months ago may be fully informed. If it should be desired to make any comments concerning the proposed amendment before the bill is submitted to Congress, they should be sent by telegram or air mail to reach us as early as possible before Friday, July 15, since it is intended to present the bill to Congress very promptly."

There was also presented a draft of letter to be used at the appropriate time to transmit the draft of bank holding company bill to Senator Maybank, Chairman of the Senate Banking and Currency Committee. The letter had been revised in accordance with suggestions made at the meeting on July 6, 1949, and during the discussion at this meeting, certain other changes were suggested and agreed to.

Mr. Clayton stated that while there was nothing that would

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require the Board to take any further action at this time with respect to the bill to provide for conversion of national banks or their merger or consolidation with State banks, State banking authorities felt that the Board was opposed to the legislation and had urged that it withdraw its objection. Mr. Clayton thought the position of the Board would be improved if it would now send a letter to the Chairmen of the Senate and House Banking and Currency Committees stating that it would have no objection to the consideration of the bill. In that connection, he presented the following draft of letter to Senator Maybank, Chairman of the Senate Banking and Currency Committee, which he recommended be approved:

"This letter has reference to S. 101, a bill 'To provide for the conversion of national banking associations into and their merger or consolidation with State banks, and for other purposes,' introduced on January 5, 1949.

"Under date of March 22, 1949, the Board advised you that it hoped that action with respect to S. 101 could be deferred until Congress had given consideration to the question of granting to the Board of Governors the power to impose supplemental reserve requirements upon insured nonmember banks as well as member banks.

"As stated in the letter of March 22, the Board is sympathetic with the principle of equality in the treatment of different classes of banks and is inclined to favor the elimination of discrimination in so far as practicable. However, legislation authorizing higher reserve requirements for member banks of the Federal Reserve System, without making such requirements applicable to nonmember banks, serves to increase the already existing discrimination against national banks, and the Board felt that this factor should be given serious consideration by Congress before it took up legislation facilitating denationalization.

"Your Committee having meanwhile conducted hearings on the question of supplemental reserve requirements and having decided not to report the bill out,

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"the Board feels that it is no longer justified in requesting a delay in the consideration of S. 101. It is pertinent to comment, however, that while this legislation will make for equality in connection with conversions or consolidations, a relatively minor matter, it may well at some future time increase the discriminatory situation as between member and non-member banks should conditions again require the imposition of higher reserves, a much more fundamental matter."

Approved unanimously, with the understanding that a similar letter would be sent to Congressman Spence, Chairman of the House Banking and Currency Committee, and that a copy of the letter would be sent to the Presidents of all Federal Reserve Banks and by the Chairman to Mr. Rapport, Chairman of the Executive Committee of the National Association of Supervisors of State Banks.

There were presented telegrams to the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on July 5, by the Federal Reserve Bank of St. Louis on July 6, by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis, and Dallas on July 7, 1949, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Eccles referred to the discussions last week of System credit policy and suggested that consideration be given to

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when action might be called for to reduce the discount rates now in effect at the Federal Reserve Banks. He suggested that the Board might send a letter or wire to the Banks stating that the matter should have the consideration of the Directors so that they would be in a position to take action whenever that appeared to be called for in harmony with the overall credit policy of the System.

This suggestion was discussed, and it was agreed that nothing should be done by the Board with respect to the matter at this time but that it should be considered further at a meeting of the Board on Tuesday, July 12, 1949, with the understanding, however, that no action would be taken at that time but that Mr. Eccles, who would leave shortly after the meeting and be absent during the balance of July, would make a statement of his views for consideration by the Board.

Following an informal discussion of System credit policy in the light of the decline in yields in Treasury bills and certificates since the action of the Federal Open Market Committee on June 28, 1949, Messrs. Eccles, Clayton, Carpenter, and Baumann withdrew from the meeting, and Mr. Smith, Special Counsel, entered the room.

Mr. Morrill referred to a letter from Mr. Evans dated July 6, 1949, suggesting an amendment to the complaint filed against Transamerica Corporation under the Clayton Act on June 24, 1948.

The letter read as follows:

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"Yesterday, during the Transamerica Hearing, the Board's Solicitor introduced and there were admitted in evidence three exhibits as to three banks acquired since the Complaint was filed. The three banks referred to and the dates of their acquisition are as follows:

Monroe State Bank, Monroe, Oregon - December 7, 1948 .

First National Bank of Lebanon, Lebanon, Oregon -
January 7, 1949

State Bank of Malheur County, Ontario, Oregon -
May 4, 1949

Respondent's counsel objected to the introduction of such exhibits and testimony relating to said banks, stating in part that they were not listed in the Complaint. Thereupon Mr. Townsend made application, through the Hearing Officer, for Paragraph Four of the Complaint to be amended by the Board.

"While I have already admitted the exhibits referred to on the basis of their bearing on the issue of tendency to create a monopoly, I believe it would be preferable for the Board to grant Mr. Townsend's application and amend the Complaint in the manner requested. It will be appreciated if this may be accomplished promptly, and that you will advise me of the Board's action as soon as possible."

In commenting on the letter, Mr. Vest stated that fundamentally there was the question of action without a quorum of the Board present, stating that if a procedure were followed under which members of the Board who were not in Washington were asked to express their views by telephone, it was entirely possible that counsel for Transamerica would raise the question of quorum and that a court would declare the action invalid because of the lack of a quorum. Mr. Vest went on to say that if the action were declared invalid, it would relate only to the three banks covered by the amendment, but it might necessitate the court remanding the case to the Board for further order.

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Mr. Smith stated that the complaint would have to be amended if an order were to be issued by the Board relating to the three banks mentioned. He stated that the complaint would not have to be amended in order to admit the evidence presented by the Board's Solicitor and admitted by the Hearing Officer and that in his opinion the Hearing Officer was correct in admitting the evidence. He also said that in his opinion action by the Board to amend or otherwise change the original complaint on the basis of telephone conversations with absent Board members would not be valid unless there was a quorum actually present at the meeting and that, if challenged, the court would probably throw out the amended complaint and remand the case to the Board for consideration on the basis of the original complaint. In this connection, Mr. Smith stated that if the Board desired to issue an amendment to the complaint, the complaint should be completely redrafted rather than changed by the simple addition of an order stating that the complaint was amended. He then outlined the changes that should be made in redrafting the complaint.

In response to questions as to the effect upon the progress of the hearing of reissuance of the complaint in an amended form, Mr. Smith stated that the hearing could go on as though the amended complaint had not been issued with one exception; that is, Transamerica should not be required to proceed with its defense

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under the amended complaint in any way until 30 days after the amended complaint was issued.

Mr. Vest stated that this might not mean much delay inasmuch as some little time would elapse before the hearings were resumed as a result of the filing of motions to dismiss and the handling of these motions. During a discussion of the possible delay that might result from amending the complaint, Chairman McCabe inquired whether Mr. Evans, as Hearing Officer, was aware of this delay and whether he had taken it into consideration in recommending that the complaint be amended as suggested by the Board's Solicitor. Upon being informed by Mr. Morrill that Mr. Evans was not aware of the opinions of Mr. Vest or Mr. Smith, Chairman McCabe suggested that Messrs. Morrill, Vest, and Smith discuss the question by telephone with Messrs. Evans and Townsend with a view to finding out, under the circumstances, if they (Messrs. Evans and Townsend) still felt the complaint should be amended.

It was understood that Messrs. Evans and Townsend would be communicated with by telephone, that the problem would be explained to them, and that they would be asked to say whether the amendment was still desired, in which case the Board would take the necessary action.

Thereupon, the meeting recessed and reconvened at 2:30 P.m. with the same attendance as at the beginning of the morn-

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ing session, except that Messrs. Leonard, Young, and Baumann were not present.

Mr. Clayton referred to a memorandum addressed by him to the Board under date of July 7, 1949, submitting a memorandum from Messrs. Young, Solomon, Koch, and Pawley which discussed the request of the New York Stock Exchange that credit granted to specialists be exempted from Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. The staff memorandum recommended that such credits be exempted, provided the specialists currently supplied to their exchange certain information regarding their use of credit. Mr. Clayton's memorandum stated that he concurred in the recommendation that the Board adopt the amendments at an early date. Copies of Mr. Clayton's memorandum had been sent to the members of the Board before this meeting.

Mr. Clayton reviewed for the information of the other members of the Board present the consideration that he and members of the staff had given to this matter and he outlined what the Probable effects of the amendments would be. He also said that in a letter dated June 29, 1949, the Securities and Exchange Commission stated that it would have no objection to the Board taking action along the lines suggested by the New York Stock

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Exchange, and that in a letter dated July 1, 1949, the New York Stock Exchange advised that it would require specialists to submit the information contemplated by the amendments.

The proposed amendments were discussed, and in accordance with a suggestion by Mr. Szymczak, it was agreed that the members of the Board would read Mr. Clayton's memorandum and its attachments over the week-end, that the matter would be given further consideration on Tuesday, July 12, 1949, and that in the meantime Mr. Clayton would advise the New York Stock Exchange informally that the Board was favorably inclined to the proposed amendments but would prefer that before formal action was taken the Exchange take such action as was necessary to require specialists to submit to the Exchange the information contemplated by the amendments.

Chairman McCabe stated that he would not be present at the meeting on July 12, 1949, but that he favored the adoption of the proposed amendments.

At this point Messrs. Riefler, Vest, and Solomon withdrew and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on July 7, 1949, were approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"The Board approves the payment of salary to Mr. Walter C. Warner as Manager at the rate of \$9,500

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"per annum for the period from July 1, 1949, to March 31, 1950: the salary rate being that which was fixed by the Executive Committee as reported in your letter of June 24, 1949."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that 'The Peachtree Trust Company', Atlanta, Georgia, became a member of the Federal Reserve System on July 5, 1949, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

Telegrams to the Presidents of the Federal Reserve Banks of Boston, Philadelphia, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas, reading as follows:

"At the joint meeting of the Board with the Presidents on December 1, 1948, it was understood that the present arrangement under which 15 million dollars is set aside each quarter for transfer to the Federal Reserve Banks' reserves for contingencies would be continued at least through the second quarter of 1949 and that the matter could be reviewed again in connection with the deduction for

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"the third quarter of 1949. This matter was raised informally when five Presidents of the Federal Reserve Banks were in Washington last week to attend a meeting of the Federal Open Market Committee, and the suggestion was made that the 15 million dollar deduction for the second quarter of 1949 should be made but that because of the marked change in the situation since last December, further deductions should not be made. It will be appreciated if you will submit any comments you may wish to make with respect to this suggestion so as to reach the Board by July 18, 1949. It is anticipated that this whole matter will be discussed at the next meeting of the Presidents and the Board."

Approved unanimously, with the understanding that copies of the wire would be sent to the Presidents of the other Federal Reserve Banks for their information and comment.

Letter to Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Kansas City, made as of March 21, 1949, by the Board's examiners, a copy of the report of examination was left for your information and that of the directors. A copy was also left for President Leedy.

"The Board will appreciate advice that the report has been considered by the Board of Directors.

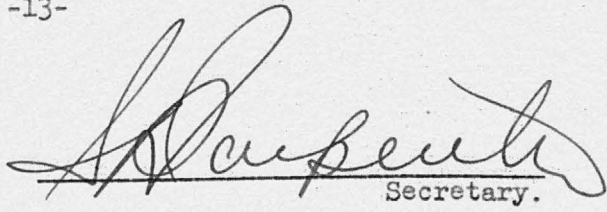
"It is understood that Examiner Murff discussed with you the desirability of providing regular periodic contact between the Auditor and an audit review committee of directors, and that he also discussed with you suggestions looking toward the development of a plan for strengthening the staff of the Auditing Department.

"The Board would appreciate having any comments you may care to offer regarding these or other discussions with respect to the examination, or as to action taken or to be taken as a result of the examination."

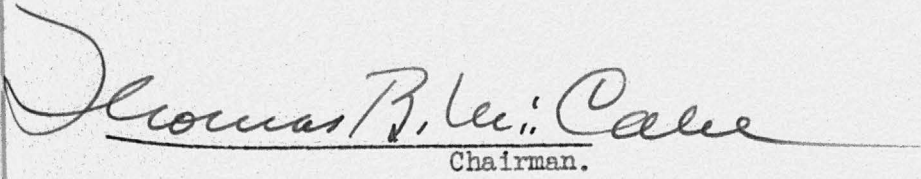
Approved unanimously.

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Secretary.

Approved:


Chairman.