

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, January 13, 1950. The Board met in the Board room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman

Mr. Szymczak

Mr. Draper

Mr. Vardaman

Mr. Carpenter, Secretary

Mr. Sherman, Assistant Secretary

Mr. Morrill, Special Adviser

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Thomas, Economic Adviser

Mr. Vest, General Counsel

Mr. Solomon, Assistant General Counsel

Mr. Youngdahl, Chief, Government Finance

Section, Division of Research and  
Statistics

There were presented telegrams to the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco stating that the Board approves the establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco on January 12, 1950, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum from Mr. Solomon dated January 12, 1950, copies of which had been sent to all members of the Board before this meeting, with respect to S. 2408, a bill sponsored by the

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Securities and Exchange Commission and introduced by Senator Frear to extend some but not all of the provisions of the Securities Exchange Act of 1934 to certain companies that are not now subject to the requirements of the Act. The memorandum stated that the bill would apply only to companies that had at least \$3 million of assets and 300 security holders, that banks were exempted, and that it would make the covered companies and their officials subject to the parts of the Securities Exchange Act of 1934 that relate to (1) publication of financial reports, (2) "insiders" profits from trading in the company's securities, and (3) solicitation of proxies. The suggestion had also been made, the memorandum stated, that securities covered by S. 2408 be made "eligible for margin", and a request had been received from Mr. Louis Loss, Associate General Counsel of the Securities Exchange Commission, for an informal indication of the Board's views on this suggestion within the next day or so.

In commenting on the memorandum, Mr. Solomon stated that he would recommend that S. 2408 be amended to provide that, for the purposes of section 7 of the Securities Exchange Act, securities that are subject to S. 2408 shall be treated as if they were ordinary registered securities. Such an amendment, he said, would (1) give such securities loan value at brokerage offices under Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and (2) make them subject to Regulation

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U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, at banks. Mr. Solomon stated that brokers would welcome the first effect, and that banks probably would not be enthusiastic about the second effect, but that he had discussed the subject on the telephone with Mr. Rouse, Vice President of the Federal Reserve Bank of New York, Mr. Young, President of the Federal Reserve Bank of Chicago, and Mr. Earhart, President of the Federal Reserve Bank of San Francisco, and that they all agreed that the uniform treatment embodied in this suggestion was preferable to an alternative which would merely give the securities loan value under Regulation T.

Following a discussion, Mr. Solomon was authorized unanimously to advise the Securities and Exchange Commission by telephone that the Board would offer no objection to an amendment to S.2408 along the lines recommended by him.

Chairman McCabe stated that Senator Robertson had lunch with him on January 11, 1950, and that in accordance with the understanding at the meeting on December 20, 1949, he discussed with the Senator legislation in which the Board was interested. In connection with the need for increased authority for construction of Federal Reserve Bank branch buildings, Chairman McCabe stated that Senator Robertson felt the best procedure would be to ask for an increase in the present \$10 million authorized by Congress in 1947.

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Following a discussion, upon motion by Mr. Vardaman, it was agreed unanimously that the staff should prepare a draft of letter to the Chairman of the Senate Banking and Currency Committee requesting that the amount which might be expended on Federal Reserve Bank branch buildings be increased by \$15 million. In taking this action, it was understood that a draft of the proposed letter would be sent in the usual manner to the Bureau of the Budget to ascertain the relation of the legislation to the President's program.

Continuing, Chairman McCabe stated that Senator Robertson had said that he planned to hold hearings on bank holding company legislation as soon as the bill to amend the Federal deposit insurance law was out of the way. In this connection Chairman McCabe stated that Senator Robertson had requested him to testify at the hearings on the proposed deposit insurance legislation.

Senator Robertson gave him to understand, Chairman McCabe said, that he would not welcome any bill from the Board at this time to increase the Board's authority over reserve requirements or consumer instalment credit, but that he would be interested in knowing about any proposal the Board might have for a fundamental change in the basis for computing reserve requirements.

With respect to legislation regarding capital requirements of banks for membership in the Federal Reserve System, now before Congress in bills S. 2494 and H.R. 5749, Chairman McCabe stated that Senator

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Robertson said he would be glad to consider the pending legislation whenever the Board wished him to do so.

Chairman McCabe went on to say that in accordance with the understanding at the meeting on January 10, 1950, he talked with Secretary of the Treasury Snyder regarding the expiration on June 30, 1950, of authority for the Federal Reserve Banks to purchase obligations direct from the Treasury and that Secretary Snyder stated the Treasury would like to have such authority continued and would sponsor the necessary legislation.

In accordance with the understanding at the meeting on December 30, 1949, Mr. Thomas discussed developments during the past week on the market for United States Government securities.

At this point all of the members of the staff with the exception of Mr. Carpenter withdrew from the meeting.

There was a further informal discussion of the selection of a Class C Director of the Federal Reserve Bank of St. Louis to fill the existing vacancy. Informal consideration had been given in that connection to Mr. Clark R. Gamble, President of the Brown Shoe Company, St. Louis, Missouri. Mr. Vardaman stated that in accordance with earlier discussions he had arranged, when he is in St. Louis during the latter part of January, to discuss the matter with Mr. Gamble.

It was agreed unanimously that the Personnel Committee should discuss with Mr. Dearmont when he is in Washington

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next week to attend the meeting of the Chairmen and Directors of the Federal Reserve Banks the possible selection of Mr. Gamble and that when Mr. Vardaman saw Mr. Gamble in St. Louis he would not tender the appointment but would suggest to Mr. Gamble that the next time he was in Washington the Board would like to explore the matter with him further for the purpose of determining whether the appointment should be tendered.

Mr. Vardaman then referred to the understanding that Mr. Hitt would resign as First Vice President of the Federal Reserve Bank of St. Louis and raised for discussion what, if any, action should be taken by the Board at this time with respect to that matter.

It was agreed unanimously that the Personnel Committee would discuss the matter with Mr. Dearmont while he is in Washington next week and would submit a recommendation to the Board and that Mr. Vardaman would attend the meeting with Mr. Dearmont if he wished to do so.

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 12, 1950, were approved unanimously.

Memorandum dated January 11, 1950, from Mr. Thomas, Economic Adviser to the Board, recommending an increase in the basic salary of Mrs. Ruth Jones, secretary to Mr. Thomas, from \$4,200 to \$4,325 per annum, effective January 22, 1950.

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Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Harold A. Bilby as Vice President at the rate of \$16,000 per annum and to Mr. Marcus A. Harris as Assistant Vice President at the rate of \$12,500 per annum for the period January 1, 1950, to March 31, 1950, inclusive. These rates, according to your letter of January 6, 1950, are the rates which were fixed by the Board of Directors."

Approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Herman W. Kilman as Assistant Cashier at the rate of \$6,600 per annum, which according to your letter of January 9, 1950, is the rate fixed by the Board of Directors for the period January 5, 1950, through May 31, 1950."

Approved unanimously.

Letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with your letter of January 9, 1950, the Board of Governors approves the payment of salary to Mr. A. L. Price, Assistant Manager at the Salt Lake City Branch, at the rate of \$6,000 per annum for the period March 1, 1950, through April 30, 1951, rather than for the period for which payment of salary was approved in our letter of January 4, 1950."

Approved unanimously.

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

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"This refers to Mr. Sheehan's letter of January 9, 1950, with regard to the applicability of the Clayton Act to the proposed service of an individual as a director of The Manufacturers National Bank of Troy, Troy, New York, who is now serving as a director of The National Bank of Cohoes, Cohoes, New York.

"The question presented is whether or not Cohoes and Troy are contiguous or adjacent within the meaning of exception numbered (5) of section 8 of the Clayton Act which permits interlocking service between banks not located in cities, towns, or villages contiguous or adjacent to each other.

"It appears from the information submitted by your Bank that the boundaries of such cities constitute a common boundary as to each city for a distance of about 1-1/2 miles and that such cities are also connected by a vehicular bridge across the Hudson River. As stated in the footnote numbered 8 in the Board's Regulation L, the Board has interpreted the term "contiguous" as referring to cities, towns and villages whose corporate limits touch or coincide at some point. It would seem, therefore, that Cohoes and Troy are contiguous and the exception referred to will not apply. It is noted that your Bank and that Counsel for your Bank are of the same opinion."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"Recently an inquiry was received concerning the status under the Board's Regulation T of debentures issued by the Central Bank for Cooperatives pursuant to the Farm Credit Act of 1933, as amended. Set forth below is the text of a designation of exemption issued by the Secretary of the Treasury which was published in the Federal Register for October 8, 1949. Accordingly, debentures issued by the Central Bank for Cooperatives are 'exempted securities' for the purposes of the Securities Exchange Act of 1934 and the Board's Regulation T.

"Paragraph 12 of section 3 (a) of the Securities Exchange Act of 1934, as amended, provides in part that when used in title I thereof,



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"unless the context otherwise requires, the term "exempted security" or "exempted securities" shall include such securities issued or guaranteed by corporations in which the United States has a direct or indirect interest as shall be designated for exemption by the Secretary of the Treasury as necessary or appropriate in the public interest or for the protection of investors.

'Notice is hereby given that pursuant to paragraph 12 of section 3 (a) of the Securities Exchange Act of 1934, as amended, the Secretary of the Treasury on September 15, 1949, designated for exemption securities issued by the Central Bank for Cooperatives under authority of the Farm Credit Act of 1933, as amended.

'This designation for exemption may be revoked, modified, or amended at any time with respect to securities not issued prior to such time.'

Approved unanimously.

Letter prepared in accordance with the discussion at the meeting of the Board on December 15, 1949, to Mr. Gilbert, Chairman, Executive Committee, Retirement System of the Federal Reserve Banks, Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to the discussion of the manner of handling investments of the Retirement System of the Federal Reserve Banks at a meeting on December 14, 1949, at which time certain members of the Board and members of the Executive Committee of the Retirement System were present. It is understood that following that meeting the Executive Committee approved the recommendation of the Investment Committee of the Retirement System, which provided that the Northern Trust Company of Chicago be relieved of management of investments in Government securities, effective January 1, 1950, the management of such securities to be handled by the Federal Reserve Bank of New York under the direction of the Investment Committee,

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"that for the present the Northern Trust Company continue to be employed for management service in connection with other investments, and that a new contract be negotiated with the Trust Company for that purpose.

"The Board is still of the opinion that the arrangement with the Northern Trust Company for management service in connection with investments of the Retirement System should be terminated and that the Retirement System should employ a qualified individual as investment manager who would operate under the direction of the Investment Committee. It is noted from the minutes of the December 14 meeting of the Executive Committee that it requested the Investment Committee to continue its study with reference to the management of the retirement fund and to prepare a comprehensive report for submission to the Board of Trustees of the Retirement System not later than the annual meeting of the Board of Trustees.

"The Board is pleased to know that this study is being carried forward and is willing to accept temporarily the actions taken at the meeting of the Executive Committee on December 14 with respect to the management of investments, with the understanding that a thorough investigation of the feasibility and desirability of obtaining the services of a competent investment manager will be made and submitted in sufficient time prior to the annual meeting of the Board of Trustees of the Retirement System in the Spring of 1950 to permit a final decision of the matter to be made at that time."

Approved, Mr. Vardaman  
voting "no".

Letter to the Honorable Walter F. George, Chairman, Committee on Finance, United States Senate, (prepared pursuant to letter of January 4, 1950, to the Bureau of the Budget) reading as follows:

"This refers to H. R. 6000, a bill to amend the Social Security Act, which was passed by the House at the last session of Congress and has been referred to your Committee.

"The purpose of this letter is to recommend that H. R. 6000 be amended so that employees of this Board who are members of the Federal Reserve Retirement System would continue to be exempt from the Federal old-age and survivors insurance system like other Government employees

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"who are members of the Civil Service Retirement System. The Federal Security Agency has advised us that it has no objection to such an amendment and the Bureau of the Budget has advised us that there is no objection to the submission of this letter.

"As passed by the House, H. R. 6000 apparently would extend the coverage of the Federal old-age and survivors insurance system so as to include a majority of the employees of this Board. The bill would exempt all employees of the United States who are 'covered by a retirement system, established by a law of the United States, for employees of the United States'. The report of the House Committee on Ways and Means construed this exemption to apply only to cases in which a law of the United States 'specifically provides for the establishment of such retirement system'. Most of the Board's employees are covered by the Federal Reserve Retirement System, a retirement system which was established under authority of law but not by a specific statutory provision. It appears, therefore, that these employees would not be exempt. On the other hand, those employees who are covered by the Civil Service Retirement System would be exempt.

"Of the 544 permanent full-time employees of the Board on November 30, 1949, 416 were members of the Federal Reserve Retirement System and 128 were members of the Civil Service Retirement System. This difference in the status of employees results primarily from the fact that persons transferring to the Board from other Government agencies where they are covered by the Civil Service Retirement System continue in that System after their employment by the Board. The contributions and benefits of Board employees under the Federal Reserve Retirement System are virtually identical with those under the Civil Service Retirement System, except in the cases of a handful of employees who have elected to continue under a retirement plan applicable to Federal Reserve Bank employees. When Board employees transfer to other Government agencies where they are covered by the Civil Service Retirement System, they receive credit in that System for their service with the Board.

"In view of the fact that H. R. 6000 would not extend the coverage of the Federal old-age and survivors insurance system to Government employees who are members of the Civil Service Retirement System or other retirement systems

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"established by Federal law, the Board believes that it would be inconsistent and undesirable to extend the coverage to include employees of the Board who are members of the Federal Reserve Retirement System. It would be particularly anomalous that one group of the Board's employees would be covered by Federal old-age and survivors insurance and another group would not be covered, even though both groups were members of comparable retirement systems. The integration of the contributions and benefits of Board employees under the Federal old-age and survivors insurance system with those under the Federal Reserve Retirement System, as apparently would be necessary, would involve difficult administrative problems and would tend to cause confusion concerning the precise benefits to which the employees would be entitled. There would be obvious complications in connection with transfers of Board employees to other Government positions.

"The Board's case is comparable to that of the Tennessee Valley Authority. That Authority also has a retirement system for its employees which is not a retirement system 'established by a law of the United States'. H. R. 6000, in defining the term 'employment' for the purposes of Federal old-age and survivors insurance, specifically excludes service 'in the employ of the Tennessee Valley Authority in a position which is covered by a retirement system established by such Authority.' Thus the bill now contains an exact precedent for exempting the Board's employees who are members of the Federal Reserve Retirement System.

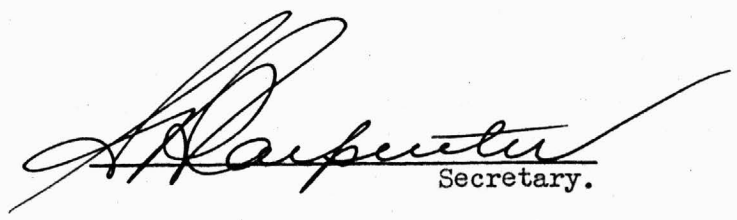
"In view of the foregoing, the Board recommends that the provisions of H. R. 6000 defining the term 'employment' be amended by adding, in connection with the Tennessee Valley Authority exemption, a provision excluding service 'in the employ of the Board of Governors of the Federal Reserve System in a position which is covered by a retirement system approved by such Board.' Such a provision, or other appropriate language having the same effect, would be incorporated in section 210(a)(7) of the Social Security Act, as amended by section 104(a) of H. R. 6000, and section 1426(b)(7) of the Internal Revenue Code, as amended by section 205(a) of H. R. 6000.

"The Board hopes that your Committee will give favorable consideration to such an amendment and will be glad, of course, to furnish any further information which your Committee may desire in connection with this matter."

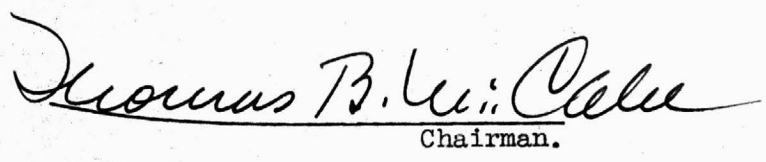
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Approved unanimously.

  
Secretary.

Approved:

  
Chairman.