

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, August 7, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Vardaman  
Mr. Mills  
Mr. Robertson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary

At the meeting of the Board on July 29, 1952, there was a preliminary discussion of a draft of letter to Mr. Slade, Vice President of the Federal Reserve Bank of San Francisco, prepared in response to Mr. Slade's letter of June 11, 1952, which enclosed a copy of the report of examination of the First Security Corporation, Ogden, Utah, made as of the close of business September 30, 1951, and requested the Board's opinion concerning the applicability of section 5114(e) of the Revised Statutes of the United States to investments by the Corporation in stocks and debentures of Aubrey G. Lanston & Co., Inc., and to certain activities of Western Investment Company, a wholly-owned subsidiary of the corporation. Action by the Board was deferred at that time pending a review of the file by Governor Robertson upon his return from vacation.

Governor Robertson stated that he had reviewed the file and approved the draft of letter to Mr. Slade in the form in which it was prepared.

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Governor Vardaman said that he also approved the language of the proposed letter, based on his understanding that the position taken therein was in accord with the policies and practices followed by the Board in the past in similar cases.

Governor Mills referred to the acceptance by First Security Company, a nonbank subsidiary of First Security Corporation, of certain "employees' savings accounts", as disclosed by the report of examination, stating that, while it appeared that the company might have accepted deposits in violation of the applicable statutory provision, it seemed clear that the possible violation was not willful and that, if brought to the attention of the management, the practice could readily be changed so that it would not be illegal. In a discussion, it was brought out that the proposed letter requested the Federal Reserve Bank of San Francisco to ascertain the full facts concerning the operation of the savings accounts and bring the matter, including the Board's practice in such cases, to the attention of the holding company affiliate, with the suggestion that the holding company affiliate supply such additional information as it might care to in order that the Reserve Bank might consider whether a probable violation of law was involved.

At the conclusion of the discussion, unanimous approval was given to the letter to Mr. Slade in the following form:

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"This refers to your letter of June 11, 1952, addressed to Mr. George S. Sloan, enclosing a copy of the report of examination of the First Security Corporation, Ogden, Utah, and requesting the Board's opinion concerning the applicability of section 5114(e) of the Revised Statutes of the United States to investments by the Corporation in stocks and debentures of Aubrey G. Lanston & Co., Inc., and to certain activities of Western Investment Company, a wholly-owned subsidiary of the Corporation.

"On the basis of the information presented, the Board is of the opinion that Aubrey G. Lanston & Co., Inc. was 'formed for the purpose of' the public sale or distribution of securities; that the acquisition of such Company's stock by First Security Corporation resulted in the acquisition of an 'interest' in such Company in violation of section 5114(e) of the Revised Statutes; and that the Corporation should divest itself of ownership of such stock as soon as possible. With respect to the Class B and C debentures of Aubrey G. Lanston & Co., Inc., the Board is of the opinion that ownership of these debentures does not give First Security Corporation any 'control' of, or any 'interest' in, the Company within the meaning of the statute. In this connection, it is understood that owners of the Class B debentures have not been called upon to consent to the payment of dividends on the Company's common stock aggregating in excess of 10 per cent of its net earnings and therefore have not exercised any measure of control over the Company.

"With respect to Western Investment Company, it is questionable whether the Company is actually engaged in the securities business. However, the Company's charter powers are so broad that it could engage in the public sale or distribution of securities and therefore it is to be considered as 'formed for the purpose of' engaging in the securities business. Under the circumstances and in accordance with action taken in somewhat similar cases arising heretofore, the Board will consider the Corporation as having complied with the spirit and purpose of the statute if the board of directors of First Security Corporation will adopt a resolution to the effect that Western Investment Company shall not be permitted to engage in the issue,

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"flotation, underwriting, public sale or distribution, at wholesale or retail, or through syndicate participations of stocks, bonds, debentures, notes, or other securities. If this is done, the Board will not regard the purchase by the Company of stock of First Security Corporation and sale thereof to employees of the group as violating such a resolution. Nor will the Board regard the purchase and occasional sale of such stock to customers of the group as in conflict with such a resolution as long as the Company does not acquire large blocks of stock of the Corporation for this purpose and as long as the Company and other units which are members of the holding company group do not actively promote such sales or hold themselves out to make such sales through advertising or otherwise.

"Your letter of June 11, 1952, referred also to the organizations listed on pages 4 and 37 of the report of examination which are affiliated with First Security Corporation under the provisions of section 1(d)(5) of Regulation P because of interlocking directorates, and to the fact that, in connection with the examination of First Security Corporation as of September 30, 1949, the Corporation's attention was directed to the omission of information regarding such affiliations from its annual reports to the Board. It is requested that you direct the Corporation's attention to the fact that, notwithstanding your previous advice to it regarding the matter, such affiliations were not reflected in the annual reports for 1950 and 1951, and advise the Corporation that the Board will expect future annual reports to include information required by Item 8 of Supplemental Information (page 9 of Form F. R. 437) with respect to all affiliated organizations.

"With further reference to the affiliated organizations mentioned above, attention is directed to the fact that the confidential section of the report of examination (page 114) shows that First Security Bank of Utah, N. A., held loans of certain of these organizations as follows:

	<u>Amount</u>	<u>Collateral</u>
Amalgamated Sugar Co., Ogden, Utah	\$150,000	None shown
Anderson Lumber Co., " "	500,000	"
Utah Construction Co., " "	554,636	"
Stoddard Lumber Co., " "	400,000	"
	<u>\$1,604,636</u>	

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"In addition, (p.149) loans made by that bank, secured in whole or in part by the capital stock of First Security Corporation, amounted to \$118,810. The capital and surplus of First Security Bank of Utah, N. A., aggregated \$6,000,000.

"Also, from information contained in the confidential section of the report of examination (pages 136, 144, and 149), it appears that loans to certain of these affiliated organizations made, or participated in, by the subsidiary banks were on an unsecured basis.

"Therefore, it appears from the facts as submitted that there were violations of paragraph 2 of the agreements executed by First Security Corporation as a condition to the issuance to it of general voting permits, in that (1) the aggregate loans made by First Security Bank of Utah, N. A., to organizations affiliated with First Security Corporation and loans collateralized by stock of that corporation exceeded the limitations of section 23A of the Federal Reserve Act, and (2) loans to the above-mentioned affiliated organizations were made, or participations therein were held, by the subsidiary banks of the group on an unsecured basis, whereas the provisions of section 23A of the Federal Reserve Act with respect to collateral were applicable.

"It is suggested that the holding company be advised of the apparent violations and that we be advised of steps taken to bring about the necessary corrections, if such violations still exist.

"It was also noted in that part of the report of examination covering the operations of First Security Company that (1) the balance sheet of that company as of September 30, 1951, reflected a liability of \$56,791.29 for 'Employees Savings Accounts'; (2) the company accepts, by regular payroll deductions, up to 10 per cent of the salary of any employee of the First Security group; (3) interest at the rate of 6 per cent per annum is paid on these accounts upon payment of the accounts in December; and (4) the participating employees have the option of receiving cash or stock of First Security Corporation. From the facts submitted, the question arises as to whether First Security Company is accepting deposits in violation of section 21(a)(2) of the Banking Act of 1933, as amended. As you know, a violation of this provision of the law constitutes a felony

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"and under the Board's practice, as set forth in the Board's letter of August 19, 1948 (F.R.L.S. #6503), every case in which it appears probable that a violation of the banking laws constituting a felony may have occurred is to be reported to the local United States Attorney and by the Board to the Attorney General of the United States. Since all of the pertinent facts of this matter may not appear from the examination report, it is requested that, unless the full facts concerning the operation of the savings accounts are known to your bank, you bring the matter, including the Board's practice in such cases, to the attention of the holding company affiliate and suggest that they supply such information as they may care to in order that your bank may consider whether a probable violation of the law is involved."

The following additional actions were taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 5, 1952, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 6, 1952, were approved and the actions recorded therein were ratified unanimously.

Memoranda recommending that the resignations of the following employees be accepted, effective the dates indicated:

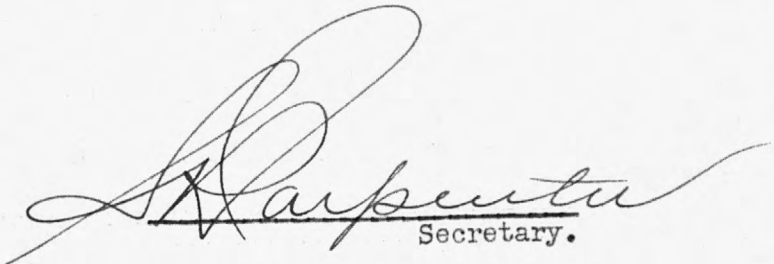
<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
8/1/52	Memorandum from Mr. Young, Director, Division of Research and Statistics	8/27/52
	Jeannette H. Kavanaugh, Clerk	

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<u>Date of Memorandum</u>	<u>Name and Title</u>	<u>Effective Date</u>
<u>Memoranda from Mr. Dembitz, Assistant Director, Division of International Finance</u>		
8/1/52	Edward Marcus, Economist	8/29/52
8/4/52	John H. Power, Economist	8/29/52

Approved unanimously.

  
A. Harpenta  
 Secretary.