

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, February 5, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Szymczak
 Mr. Evans
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Thurston, Assistant to the Board
 Mr. Riefler, Assistant to the Chairman
 Mr. Young, Director, Division of Research and Statistics
 Mr. Horbett, Assistant Director, Division of Bank Operations
 Mr. Solomon, Assistant General Counsel
 Mr. Youngdahl, Assistant Director, Division of Research and Statistics

There was presented a draft of telegram to Mr. McConnell, Vice President and Secretary of the Board, Federal Reserve Bank of Minneapolis, reading as follows:

Reurtel February 4. Board approves, effective February 5, 1954, rates of 1-3/4 per cent on discounts for and advances to member banks under sections 13 and 13a and 2-1/4 per cent on advances under section 10(b). Otherwise Board approves establishment by your Bank, without change, of rates of discount and purchase in Bank's existing schedule, advice of which was contained in your telegram dated February 4, 1954.

Approved unanimously, with the understanding that advice of this action would be sent by telegram to the Presidents of all Federal Reserve Banks, that a notice of the action would be sent to the Federal Register, and that the following statement announcing the action would be

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handed to the press at 11:00 a.m.
today for immediate release:

The directors of the Federal Reserve Bank of Minneapolis have established a discount rate at that Bank of $1\frac{3}{4}$ per cent, and the Board of Governors has approved this action, effective immediately. The rate previously in effect at the Bank was 2 per cent.

Before this meeting a draft of the first part of the Annual Report for the calendar year 1953, revised in the light of the discussion at the meeting on Thursday, January 28, had been sent to each member of the Board. Copies of the remainder of a draft of text of the report had been sent to the members of the Board in galley form.

There followed a discussion of the draft at the conclusion of which the text of the Annual Report was approved unanimously with the understanding that it would be subject to any editorial changes proposed by the members of the Board.

There had also been sent to the members of the Board under date of February 3, 1954, a draft of record of policy actions taken by the Board of Governors during the year 1953, revised in accordance with the discussion at the meeting of the Board on January 29, 1954. The revisions made in the draft included changes to show in the entries for January 15, February 20, and June 23 that in each case one of the members of the Board was not present but stated that he concurred in the action.

Unanimous approval was given to the draft of policy record for inclusion in the appendix of the Board's Annual Report.

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Chairman Martin then referred to the draft of record of policy actions of the Federal Open Market Committee during the year 1953, a revised copy of which had been sent to each member of the Board under date of February 3, 1954, showing all changes which had been made pursuant to suggestions received from members of the Committee and from Presidents of Federal Reserve Banks who are not now members of the Committee.

In response to a question from Chairman Martin, Mr. Riefler stated that the draft of policy record had been prepared on the basis of the minutes of the meetings of the Federal Open Market Committee during 1953, that all members of the Committee had had an opportunity to make suggestions in the draft, that all of their suggestions had been accepted, and that the draft was now submitted to the Board for its approval for inclusion in the appendix of its Annual Report to Congress.

Approved unanimously.

Messrs. Young, Horbett, and Youngdahl withdrew from the meeting at this point.

Before this meeting there had been circulated among the members of the Board for approval a draft of letter to the Federal Reserve Bank of New York concerning the application of section 32 of the Banking Act of 1933, as amended, to three interlocking relationships between member banks and Investors Management Company, Inc., Elizabeth, New Jersey.

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The draft, which had been prepared in response to a letter from the New York Bank dated December 24, 1953, and which had been supplemented by subsequent correspondence and a personal call from Counsel for Investors Management Company, Inc., and Counsel for Hugh W. Long and Company, Inc., took the position that the Board, at this time, would not be disposed to object to the view of the Federal Reserve Bank of New York and its Counsel to the effect that continuance of the relationships described would not violate section 32.

Governor Robertson stated that while he had indicated his approval of the draft of reply he had done so with some misgivings and he had requested, therefore, that there be a discussion of the matter at this meeting. At his request, Mr. Solomon outlined the interlocking relationships substantially as follows:

From the information presented, it appeared that George E. Roosevelt was a director of the Guaranty Trust Company of New York, that W. Emlen Roosevelt was President of the National State Bank, Elizabeth, New Jersey, and that Boykin C. Wright was a director of the National City Bank, New York City. These men were stated to be, respectively, chairman and director, president and director, and director of Investors Management Company, Inc., and to have occupied directorships with that company for many years. While apparently not itself engaged in the sale or distribution of securities, Investors Management Company, Inc., had been long engaged as investment adviser and manager for two open-end investment companies, namely, Investors Management Fund, Inc. and Fundamental Investors, Inc., both in Elizabeth, New Jersey.

The principal underwriter of the shares of the two open-end investment companies was Hugh W. Long and Company, Inc., Elizabeth, New Jersey, which was stated also to act both as principal underwriter and as investment adviser for two other

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open-end investment companies, Diversified Fund, Inc. and Manhattan Bond Fund, Inc. For some time Hugh W. Long and Company Inc. had owned 25 per cent of the shares of Investors Management Company, Inc., and Mr. Hugh W. Long, who was president and director of Hugh W. Long and Company, Inc., Investors Management Fund, Inc., and Fundamental Investors, Inc. was also a director of Investors Management Company, Inc. Apparently none of the other present five directors of Investors Management Company, Inc. occupied any position with either of the open-end companies just mentioned or with Hugh W. Long and Company, Inc., although four of the six officers of Investors Management Company, Inc. appeared to be also officers of either Investors Management Fund, Inc. or Fundamental Investors, Inc. or both.

Mr. Solomon stated that, in accordance with the position that had long been taken by the Board that a company engaged solely in investment advisory service should not be regarded as "primarily engaged" in the issuing, underwriting, or distributing of securities as defined in section 32 of the Banking Act of 1933, it would appear that Investors Management Company, Inc. should not be regarded as subject to that statute unless a proposed acquisition of all of the remaining 75 per cent of the stock of Investors Management Company, Inc. by Hugh W. Long Company, Inc. might necessitate a different view should such transaction be consummated.

With respect to this proposed transaction, it appeared that stockholders of Investors Management Company, Inc. other than Hugh W. Long Company, Inc. would, in effect, exchange their 75 per cent stock interest in Investors Management Company, Inc. for 35 per cent of the capital stock of Hugh W. Long and Company, Inc. Investors Management Company, Inc. would continue to serve as investment adviser to Investors Management Fund, Inc.

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and Fundamental Investors, Inc., and would also serve as investment adviser to Diversified Fund, Inc. and Manhattan Bond Fund, Inc. As a further step in carrying out the proposed transactions it had been stated that present stockholders of Hugh W. Long and Company, Inc. would enter into agreements which would provide, among other things, for steps designed to assure the election of a majority of the directors of Investors Management Company, Inc., including George E. Roosevelt, W. Emlen Roosevelt, and Boykin C. Wright, over a period of 10 years, and that the directors of Investors Management Company, Inc. would be free from domination or control by Hugh W. Long and Company, Inc.

Governor Robertson stated that he agreed with the conclusion of Counsel for Investors Management Company, Inc., Counsel for the Federal Reserve Bank of New York, and the Board's Legal Division, that the interlocking relationships were not specifically prohibited by the letter of the law as set forth in section 32 of the Banking Act of 1933. However, he felt, after further consideration, that the Board should take the position that even though the case did not come within a literal reading of the statute, nevertheless, all of the potential evils at which the statute was aimed were present. He also stated that a letter had been received yesterday at the Federal Reserve Bank of New York from Shearman & Sterling & Wright, Counsel for Investors Management Company, Inc., and had been transmitted to the Board's offices by telephone, requesting that, for reasons set forth in the letter, their earlier request for determination of the applicability

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of section 32 not be acted upon at this time. Governor Robertson stated that he would be opposed to permitting the earlier request to be withdrawn and that he had come to the conclusion that Investors Management Company, Inc. should be made aware of the Board's doubts regarding the relationship and should be warned that if the proposed transaction whereby Hugh W. Long and Company would become sole owner of Investors Management Company, Inc. were carried out, it would be at their own risk.

Governor Mills stated that he, too, had had misgivings when he approved the draft of letter which had been circulated to the members of the Board and that he would like to withdraw that approval, and Governor Evans expressed a similar view.

There followed a discussion of the possible alternatives that might be followed in the matter during which Mr. Solomon stated, in response to a question from Chairman Martin, that in his opinion it was extremely doubtful that a court would uphold the Board in a test case to determine whether the law was applicable to the interlocking situation described.

Governor Robertson stated that it was his feeling that a letter should be sent in response to the initial request for a determination which would indicate that the proposed transaction would result in a situation which was not consistent with the intent of the law.

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Chairman Martin stated that he had read the proposed draft of reply very carefully, that the discussion this morning had not brought out any points which would cause him to change his view that the relationships would not violate section 32, and that on the basis of the facts available he would be opposed to any action which would represent a step toward a proceeding by the Board under section 30 of the Banking Act of 1933 to remove the individuals concerned as directors of the member banks.

During the discussion, Governor Vardaman stated that he would favor a forthright answer to the inquiry, and that he had no objection to a court test of the matter in order to determine the Board's authority.

At the conclusion of the discussion, it was agreed that the proposed letter to the New York Bank should be rewritten along the lines of Governor Robertson's suggestion and submitted to the Board for further consideration.

There was presented a draft of telegram to Mr. Bryan, President of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the Bank on February 4, 1954, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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The meeting then adjourned. During the day the following additional actions were taken by the Board with all of the members present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on February 4, 1954, were approved unanimously.

Memorandum dated February 4, 1954, from Mr. Sloan, Director, Division of Examinations, recommending that the resignation of John R. Stanmeyer, Assistant Federal Reserve Examiner in that Division, be accepted effective February 2, 1954.

Approved unanimously.

Letter to Mr. Diercks, Vice President, Federal Reserve Bank of Chicago, reading as follows:

In accordance with the request contained in your letter of February 2, 1954, the Board approves the designation of Gordon L. Wold as a special assistant examiner for the Federal Reserve Bank of Chicago.

Approved unanimously.

Letter to Mr. Woolley, Vice President, Federal Reserve Bank of Kansas City, reading as follows:

In accordance with the request contained in your letter of February 1, 1954, the Board approves the designation of the following as special assistant examiners for the Federal Reserve Bank of Kansas City for the specific purpose of rendering assistance in the examinations of the Commerce Trust Company, Kansas City, Missouri, and The International Trust Company, Denver, Colorado:

Jerry Elliott
James V. Fisler
Marvin L. Mothersead
Frank J. Novak

Approved unanimously.

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Letter to the Board of Directors, Alden State Bank, Alden, New York, stating that subject to conditions of membership numbered 1 and 2 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of New York.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.

Letter to the Board of Directors, Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, reading as follows:

Pursuant to the provisions of Section 18(c) of the Federal Deposit Insurance Act, the Board of Governors hereby gives its written consent to the mergers of Clifton Heights National Bank, Clifton Heights, Pennsylvania, and The First National Bank of Chester, Chester, Pennsylvania, with and into Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, provided such mergers are effected substantially in accordance with the joint plan of merger dated October 1, 1953, and are accomplished within six months from the date of this letter.

In connection with these mergers the Board of Governors approves the establishment and operation by Fidelity-Philadelphia Trust Company of branches at the southwest corner of Ogden Street and Baltimore Pike, Clifton Heights, Pennsylvania; 242 West Baltimore Pike, Clifton Heights, Pennsylvania; southwest corner of 5th and Market Streets, Chester, Pennsylvania; 1930 West Third Street, Chester, Pennsylvania; and 1000-1002 Market Street, Marcus Hook, Pennsylvania.

Pursuant to section 24A of the Federal Reserve Act, the Board of Governors approves an increase of approximately \$208,000 in investment in bank premises, representing certain banking offices of the national banks being

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absorbed through the proposed merger.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Philadelphia.

Letter to the First National Bank in Indiana, Indiana, Pennsylv-
ania, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania. The exercise of these powers, in addition to that heretofore granted to act as registrar of stocks and bonds, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which the First National Bank in Indiana is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Cleveland.

Letter to The Merchants National Bank of Cedar Rapids, Cedar
Rapids, Iowa, reading as follows:

The Board of Governors of the Federal Reserve System has given consideration to your supplemental application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as guardian of estates, assignee, receiver, committee of estates of lunatics or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the

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laws of the State of Iowa. The exercise of these powers, in addition to those heretofore granted to act as trustee, executor, administrator and registrar of stocks and bonds, shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers which The Merchants National Bank of Cedar Rapids is now authorized to exercise will be forwarded to you in due course.

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Chicago.

Letter to Mr. Peterson, Vice President, Federal Reserve Bank of
St. Louis, reading as follows:

This refers to your letter of January 14, 1954, and its enclosures, regarding the request made by Friendly Finance Co., St. Louis, Missouri, that the Board determine that such company is not a holding company affiliate (except for the purposes of section 23A of the Federal Reserve Act).

It is understood that Friendly Finance Co. was organized and is operated for the purpose of making small loans and buying consumer paper at a discount; that Friendly Finance Co. is a holding company affiliate by reason of the fact that it owns 824 of the 1,000 outstanding shares of stock of Normandy State Bank, Normandy, Missouri; that over 55 per cent of the assets of Friendly Finance Co. are invested in shares of stock of Normandy State Bank; and that purchase of this bank stock was made principally by means of borrowed money and not by means of cash funds available for investment.

As you know, section 2 of the Banking Act of 1933, as amended, excludes from the definition of "holding company affiliate" any company which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. While this provision refers to banks in the plural, it is believed that,

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under rules of statutory construction prescribed by Congress it also includes the singular. Although Friendly Finance Co. controls only one bank, it appears to be engaged substantially in the business of holding bank stock.

In considering whether there is any justification for making the requested determination, the Board has carefully considered all of the circumstances of this case, including the lending and discount operations of Friendly Finance Co. On the basis of all of the facts of the case as presented to the Board and in view of the nature of the Company's business, the Board has concluded that it would not be warranted in making the determination requested, and it will be appreciated if you will so advise Friendly Finance Co. Consequently, the Company will not be in a position legally to vote the stock of the Normandy State Bank unless a voting permit is obtained from the Board.

Approved unanimously, together with a telegram to Mr. Alexander, Federal Reserve Agent, Federal Reserve Bank of St. Louis, authorizing him, subject to the condition stated below, to issue a limited voting permit, under the provisions of Section 5144 of the Revised Statutes of the United States, to Friendly Finance Co., St. Louis, Missouri, entitling such organization to vote the stock which it owns or controls of the Normandy State Bank, Normandy, Missouri, at any time prior to June 1, 1954, to elect directors of such bank at the annual meeting of shareholders or any adjournments thereof, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank. The condition stated in the telegram was as follows:

Prior to the issuance of limited voting permit, authorized herein, Friendly Finance Co. shall execute and deliver in duplicate to Reserve Bank an application

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for voting permit on Form P-1, together with exhibits A, C, M, and O, and a balance sheet dated December 31, 1953, or any date subsequent thereto, with supporting schedules as required by items 1, 7 and 8 of exhibit D of Loose Leaf Service #7172.

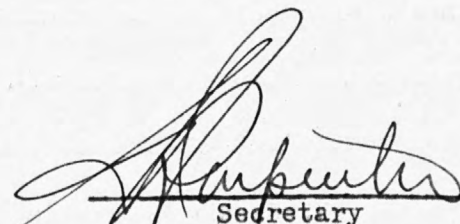
Memorandum dated January 20, 1954, from Mr. Sloan, Director, Division of Examinations, reading as follows:

Action taken by the Board on November 10, 1949, provided that, not more frequently than once each year, the Board would pay the costs of a dinner for representatives attending the Examiners' Conference at a cost not exceeding \$10 per person. It is recommended that such a dinner be approved for the Conference to be held this year in Washington at a cost not to exceed \$8 per person.

The Conference is scheduled for February 11, 12, and 13, 1954, and it is proposed that the dinner will be held on the night of February 11 at the George Mason Hotel in Alexandria, Virginia. Preliminary negotiations indicate that costs will be within the amount stipulated.

It was further provided that a list of those to be invited to attend should be submitted in advance for approval. Approval is requested for the attached list of 28 representatives of the Reserve Banks, 18 representing the Division of Examinations, and as many as may accept from the list of Members of the Board and the Senior Staff. The total is a possible 61. Probable attendance is estimated at 55.

Approved unanimously.


Secretary