

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, November 26, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Robertson
Mr. Balderston

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Assistant General Counsel
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Cherry, Legislative Counsel
Mr. Thompson, Federal Reserve Examiner, Division of Examinations

There were presented telegrams to the Federal Reserve Banks of Boston, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco approving the establishment without change by the Federal Reserve Banks of Boston and St. Louis on November 22, by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Minneapolis, and San Francisco on November 24, and by the Federal Reserve Bank of Dallas on November 26, 1954, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Messrs. Sloan, Hackley, and Thompson then withdrew from the meeting.

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Pursuant to the understanding at the meeting on November 24, 1954, there had been sent to the members of the Board copies of a revised draft of reply, prepared by Mr. Riefler, to the third of the five questions asked of Chairman Martin by the Congressional Joint Committee on the Economic Report preparatory to the hearings on monetary policy to be held by the Subcommittee on Economic Stabilization on December 6 and 7, 1954.

Following a recess to permit the members of the Board to review the draft more carefully, the meeting reconvened at 10:45 a.m. at which time certain suggestions were made by the Board members for further changes in the draft.

At the conclusion of the discussion, it was agreed unanimously that the draft of answer to the third question, after having been revised in the light of the comments at this meeting, would be shown to Mr. Burgess, Under Secretary of the Treasury for Monetary Affairs, and would then be sent to Senator Flanders, Chairman of the Subcommittee on Economic Stabilization, in a form satisfactory to Chairman Martin.

Messrs. Thurston, Riefler, Thomas, Young, Youngdahl, and Cherry then withdrew from the meeting.

There was presented a draft of letter to Mr. Latham, Vice President of the Federal Reserve Bank of Boston, reading as follows:

Reference is made to your letter of November 19, 1954, submitting the request of the Brattleboro Trust Company, Brattleboro, Vermont, for the Board's reconsideration of

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the terms of the approval, under the provisions of section 24A of the Federal Reserve Act, of an investment directly or indirectly in bank premises exceeding its capital stock.

After consideration of all available information, the Board of Governors amends its approval of October 25, 1954, to the investment, direct or indirect, of not to exceed \$261,559 in banking premises by Brattleboro Trust Company by reducing the amount of additional capital funds to be raised through the sale of new stock from \$200,000 to not less than \$130,000.

It is understood that the management agrees that the capital structure will be further augmented by retention of substantial portions of operating earnings.

Approved unanimously.

Governor Mills referred to the agenda for the meeting of the Conference of Presidents of the Federal Reserve Banks on December 6, 1954, and suggested that some of the items on the agenda appeared to be of such a nature that the Board might profitably discuss them with the Presidents at a joint meeting if the Presidents were to remain in Washington through December 8. He also suggested that there might be developments at the hearing before the Subcommittee on Economic Stabilization on December 7 which should be discussed by the Board and the Presidents.

There was some discussion based on Governor Mills' comments and it was indicated that a decision on a joint meeting of the Board and Presidents would be made in the light of developments while the Presidents were in Washington.

Messrs. Sloan, Hackley, and Thompson returned to the room at this point.

Reference was made to a memorandum from Mr. Hackley dated November 23, 1954, copies of which had been sent to the members of the Board,

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regarding the request of Chesapeake Industries, Inc., New York, New York, for a determination by the Board that, upon consummation of a proposed transaction whereby it would acquire a majority of the stock of Colonial Trust Company, New York, New York, a State member bank, Chesapeake Industries would not be engaged as a business in holding the stock of, or managing or controlling banks, and therefore would not be deemed to be a holding company affiliate within the meaning of section 2(c) of the Banking Act of 1933, as amended. After reviewing the circumstances involved, including the fact that neither Chesapeake Industries nor any of its subsidiaries would control any bank stocks other than stock of Colonial Trust Company, the memorandum referred to the policy with respect to handling requests for section 301 determinations which was agreed upon by the Board on November 4, 1954; stated that the case in question was believed to fall within that policy; and recommended that the request be granted. The memorandum, to which was attached a draft of letter to the applicant reflecting the recommendation, also pointed out that in transmitting the application the Federal Reserve Bank of New York stated that ordinarily it would have recommended granting the requested determination, but that in view of the Board's action in May 1954 in declining a determination with respect to the Boston Post Publishing Company, of Boston, Massachusetts, (a somewhat similar case where the applicant, although controlling only one bank, also controlled a number of subsidiaries engaged in a variety of businesses) the Reserve Bank felt

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that it was not in a position to recommend that the Board grant the determination requested by Chesapeake Industries.

Governor Robertson made a statement in which he said that in a way it was fortunate that this case had come before the Board at this time, since it afforded a good example by which the Board could test the soundness of the policy adopted on November 4. Under that policy, he thought that the staff could have made no recommendation other than for a favorable determination. He then suggested that the Board consider this case carefully in the light of the statutory definition of a holding company affiliate and in the light of proposed holding company legislation which would provide for the divorcement of banking and nonbanking interests of holding companies. On the latter point, it was his feeling that favorable determinations in cases like the one now before the Board might make it difficult for the Board, if called upon to testify regarding the proposed legislation, to take the position which it had taken previously with respect to the separation of banking and nonbanking businesses.

Governor Robertson then expressed the opinion that to grant the requested determination in this case would mean, in effect, that any large company wishing to acquire a bank and operate it could do so without subjecting itself to the requirements to which bank holding companies ordinarily are subjected. He felt that one principal distinction which should be made in considering requests for section 301 determinations was whether the applicant was going into the business of banking of its own volition or came into the ownership of a bank through a relationship which was

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merely incidental. He said that a favorable determination pursuant to the recently-adopted policy of the Board would open the door to corporations going into the banking business whenever they had money to invest and believed that a banking enterprise would be a desirable one in which to place their funds.

At the request of the Chairman, Messrs. Hackley and Sloan then commented on the similarities and possible points of difference between the Chesapeake Industries case and that of the Boston Post Publishing Company. Mr. Hackley concluded the comparison by stating that the similarities were such as to suggest that the Board should review the Boston Post case if a favorable determination were granted in the Chesapeake Industries case. In further comments Mr. Hackley brought out that the present law is silent regarding the divestment of nonbanking interests by holding companies, and he felt, therefore, that a favorable determination in this case and others like it might not necessarily embarrass the Board under new holding company legislation which would have different definitions and objectives.

Chairman Martin stated that while he was sympathetic with the problems mentioned by Governor Robertson, he questioned very much whether the law as presently constituted should be enlarged through action by the Board to comprehend certain objectives, even though those objectives might in fact be considered very desirable. This was another illustration, he thought, of the need for adequate bank holding company legislation.

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After Governor Robertson had referred to the language of the present statute in support of his view that a favorable section 301 determination should not be granted where a company was going actively into the banking business, even though only one bank was involved, Governor Mills said that he considered Governor Robertson's arguments very persuasive and important, but that to him the one-bank holding company case was separate and apart from the holding company activities that the Congress had in mind attempting to control when the present legislation was enacted. After likening the case now before the Board to that of the United Mine Workers on which the Board acted several months ago, Governor Mills said that it was hard for him to believe that unsound banking practices at Colonial Trust Company would result from its acquisition by Chesapeake Industries and that it was also hard for him to see why the Board should refuse the requested determination when the personal holding company of Colonial Trust Company's president and his wife had been granted a section 301 determination which was still outstanding. In conclusion, he asked what the Board would gain of a substantial nature by refusing a favorable determination or how the public interest would be served thereby.

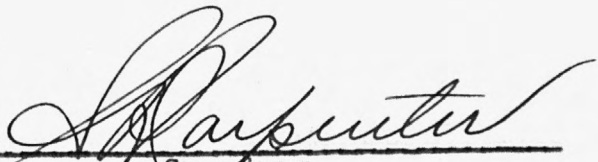
Following discussion based on the comments which had been made, Chairman Martin suggested that the Board consider the matter further at a meeting on Thursday, December 2.

There was unanimous agreement with this suggestion.

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Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 24, 1954, were approved unanimously.

The meeting then adjourned.


Secretary