

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 2, 1954. The Board met in the Board Room at 9:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Vest, General Counsel
Mr. Sloan, Director, Division of Examinations
Mr. Hackley, Assistant General Counsel

The following matters, which had been circulated to the members of the Board, were presented for consideration and action taken as indicated:

Memorandum from Mr. Sloan dated November 26, 1954, recommending that Harry J. Meyer and S. Herbert Turkus, examiners for the Federal Reserve Bank of New York, Harvey Fleetwood and William D. Kendrick, assistant examiners for the Federal Reserve Bank of New York, and Stephen T. Lederleitner and Benedict Rafanello, special assistant examiners for the Federal Reserve Bank of New York, be appointed by the Board of Governors as examiners for the purpose of participating in a forthcoming examination of Bank of America, New York, New York.

Approved unanimously.

Letters to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

In accordance with the request contained in your letter of November 24, 1954, the Board approves the appointment of William A. Nigro as an examiner for the Federal Reserve Bank of San Francisco. Please advise the date upon which the appointment is made effective.

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In accordance with the request contained in your letter of November 23, 1954, the Board approves the appointment of Hugh J. Maguire as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the date upon which the appointment is made effective and as to salary rate.

Approved unanimously.

Letter to the Board of Directors, Peninsula Bank and Trust Company, Williamsburg, Virginia, reading as follows:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment of an in-town branch on Richmond Road in a shopping center to be erected by Williamsburg Restoration, Inc., by Peninsula Bank and Trust Company, Williamsburg, Virginia, provided the branch is established within one year from the date of this letter.

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

Pursuant to the understanding at the meeting on November 26, 1954, further consideration was given to the request of Chesapeake Industries, Inc., New York, New York, submitted through the Federal Reserve Bank of 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.

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In a statement in which he reiterated views that he had expressed on November 26, Governor Robertson said that under the statutes as now constituted he could not justify in his own mind granting exemptions in cases like the one before the Board where a company engaged in other businesses was actively going into the banking field. It seemed to him that the Board should give the matter very careful consideration before following such a policy, even when it did not appear that abuses would necessarily be involved. He also pointed out that a refusal by the Board to grant the requested determination in this case would not preclude the proposed transaction, particularly since, in view of the circumstances, it seemed doubtful whether Chesapeake Industries would need to obtain a voting permit to vote its stock in Colonial Trust Company.

Chairman Martin stated that while he had a great deal of sympathy with Governor Robertson's position, he felt that the only real answer to the problem was the enactment of adequate bank holding company legislation which would provide for the separation of banking and nonbanking businesses. It was his view that nothing substantial would be accomplished by a refusal on the part of the Board to grant requested section 301 determinations on the basis of the possibility of subsequent abuses. While recognizing the points Governor Robertson had made, he did not read the existing statutes in quite as restrictive a way, and in the case before the Board he felt that a favorable determination might be made under the existing law on the basis that Chesapeake

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Industries was not engaged in the banking business or embarking on that business, but rather that the acquisition of stock in Colonial Trust Company was something more or less incidental to its other activities. He added that while he could envisage a wide field of abuses developing from the combination of banking and nonbanking interests, he would favor granting the requested determination to Chesapeake Industries because it was not clear to him what would be gained by investigating all of the activities of Chesapeake Industries and trying to appraise the relationship of that corporation's assets to the member bank. He was not anxious that the Board assume such a responsibility and was not certain that it would be equipped to undertake such a task. In response to a comment by Governor Robertson that the granting of the requested determination would logically imply that the Board would have to make similar determinations to any large business concerns that might decide to acquire a bank, Chairman Martin stated that he would be disposed to make such determinations since he felt that some rule of reason must be invoked.

After expressing the feeling that the Board's record relating to the consideration of section 301 cases should be very clear, Governor Mills stated that he shared the Chairman's views regarding the general policy that the Board should follow and regarding the request of Chesapeake Industries. He went on to say that on the basis of the Board's consideration of one-bank holding company cases over the past several months, he had become convinced that the existing law was intended

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primarily to cover holding company situations involving a number of banks and provide for the supervision of those cases that would not otherwise be possible. In the case of a single controlled bank, he pointed out that there is ample room under the law for adequate supervision of that institution. He also said that by refusing a section 301 determination to Chesapeake Industries all that the Board apparently would gain would be an opportunity to investigate into the assets of the company, which presumably would not strengthen the Board's position in carrying out its bank supervisory responsibilities. Governor Mills brought out that Chesapeake Industries was willing to introduce \$1 million of new capital into Colonial Trust Company, that the bank's management problem would not be worsened, and that those investing in the bank would have a stake to protect.

Governor Mills added that the matter before the Board was essentially one involving the acquisition of a bank by an investment trust, which might be distinguished in various respects from a situation where a bank holding company with many other interests becomes actively engaged in the management of banks. While he was inclined to believe that it was undesirable for an investment trust to take over control of a bank and that the door was open to possible abuses, he thought that the way to cope with the problem was the passage of legislation which would prohibit the entrance of such organizations into commercial banking. Governor Mills expressed agreement with a statement by

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Governor Robertson to the effect that the granting of a favorable determination to Chesapeake Industries would seem to call for early review of the Board's refusal to grant such a determination to the Boston Post Publishing Company because of the similarity of the two cases.

In commenting upon Governor Mills' remarks, Governor Robertson said that in his opinion the Board should not be influenced in reaching a decision by whether a given situation was desirable or undesirable because in the final analysis the Board, under the existing law, must decide whether or not the holding company was engaged as a business in holding the stock of, or managing or controlling, banks.

Governor Szymczak stated that in the light of the statements which had been made, he was inclined to agree with the position taken by Chairman Martin. He also agreed that, in all the circumstances, a review of the Boston Post Publishing Company case would be desirable.

Governor Balderston said that his views were essentially the same as those which had been expressed by the Chairman and by Governor Mills, that the discussion seemed to point up the need for adequate bank holding company legislation because it appeared that great evils might arise from the acquisition by important industries or companies of bank subsidiaries, but that under the present law it would seem to him to be appropriate to grant the determination requested by Chesapeake Industries.

In a further discussion, Governor Robertson questioned whether the Board had the legal authority to make a favorable determination in

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the circumstances involved in the application of the Chesapeake Industries.

At the conclusion of the discussion, approval was given, Governor Robertson voting "no" for the reasons which he had stated, to the following letter to Mr. Livingston Goddard, Jr., Treasurer, Chesapeake Industries, Inc., New York, New York, for transmittal through the Federal Reserve Bank of New York:

This refers to your request on behalf of Chesapeake Industries, Inc., submitted through the Federal Reserve Bank of New York and transmitted to the Board under date of November 10, 1954, for a determination by the Board of Governors that, upon completion of a particularly described transaction under which Chesapeake Industries would acquire a majority of the stock of the Colonial Trust Company, New York, New York, a member bank of the Federal Reserve System, Chesapeake Industries 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, except for purposes of section 23A of the Federal Reserve Act.

From the information submitted, it is understood that Chesapeake Industries operates entirely through wholly owned subsidiaries engaged in a variety of businesses, including among others the manufacture of oil mill machinery and steel specialties, the manufacture of electronics equipment, the manufacture of movable steel partitions, the selling of corporate and financial printing, the selling of fine paper, the processing of film, and the selling of transportation advertising; that Chesapeake Industries now proposes to acquire, through exchange of stock, control of the subsidiaries of Pentson Corporation of New Jersey, including Colonial Trust Company; and that, as a result of the proposed transaction, Chesapeake Industries will control a majority of the outstanding stock of Colonial Trust Company but will not, either itself or through any of its subsidiaries, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Chesapeake Industries will not be engaged, directly or indirectly, as a business in holding the stock of or managing

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or controlling banks, banking associations, savings banks or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Chesapeake Industries will not be deemed to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

If, however, the facts should at any time differ from those set out above to an extent which would indicate that Chesapeake Industries might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts.

In connection with this action, Chairman Martin referred to the decision at the meeting of the Board on November 4, 1954, that the staff should review and make recommendations to the Board concerning 22 section 301 determinations which might present questions. He suggested that this material be submitted for the Board's consideration as promptly as possible, together with recommendations concerning the Boston Post Publishing Company case and any other cases of a similar nature where section 301 determinations had been declined by the Board.

There was unanimous agreement with the procedure suggested by Chairman Martin.

Governor Mills stated that he had received a telephone call from Mr. Carroll Gunderson, of the American Bankers Association, who expressed the hope that the Board would be represented at the Association's forthcoming credit conference in Chicago. There was a brief discussion of this matter, and it was ascertained that none of the members of the Board present were planning to attend. The view was expressed

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in this connection that attendance of Board members at meetings of the kind in question did not appear to be necessary unless they were to have a part in the program.

Governor Mills said Mr. Gunderson also stated that a meeting of officers of the American Bankers Association's National and State Bank Divisions was to be held in Washington on February 3 and 4, 1955, that a dinner was to be given on February 3 to which the members of the Board would be invited, and that on February 4 the groups would like to come to the Board's offices to discuss matters of current interest with the Board and perhaps have a brief resume of the economic situation. Governor Mills said that he felt an invitation to have luncheon at the Federal Reserve Building on that date would be appreciated.

Governor Mills was authorized to extend, through Mr. Gunderson, an invitation to the representatives of the American Bankers Association to visit the Board's offices on February 4 for luncheon and a discussion with the members of the Board.

Governor Mills also referred to questions raised by Mr. Gunderson regarding certain banking matters of current interest, and the status of these matters was discussed informally.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on December 1, 1954, were approved unanimously.

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The meeting then adjourned.

Pursuant to the procedure adopted by the Board on November 1, 1954, and in accordance with the recommendation contained in a memorandum dated November 29, 1954, from Mr. Young, Director, Division of Research and Statistics, Millard Hastay, a member of the staff of the National Bureau of Economic Research, was appointed as a consultant until June 30, 1955, in connection with the Talle Subcommittee project, to serve as secretary for the Consultant Committee on Business Expectations, on a temporary contractual basis, with compensation at the rate of \$50 per day for each day worked for the Board, either in Washington or outside the city, plus a per diem in lieu of subsistence at the rate of \$15 for the amount of time spent in a travel status in connection with his assignment, and transportation expenses in accordance with the Board's travel regulations applicable to an assistant division head; with the understanding that for purposes of travel, the headquarters of Mr. Hastay would be either the home or place of business.

In accordance with the recommendation contained in a second memorandum from Mr. Young of the same date, Vernon Garvey Lippitt, a graduate student at Harvard University, was appointed as a consultant until June 30, 1955, in connection with the Talle Subcommittee project, to serve as secretary for the Consultant Committee on Consumer Expectations, on a temporary contractual basis, with compensation at the rate of \$25 per day for each day worked for the Board, either in Washington or outside the city, plus a per diem in lieu of subsistence at the rate of \$11 for the

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amount of time spent in a travel status in connection with his assignment, and transportation expenses in accordance with the Board's travel regulations applicable to persons other than members of the Board and the official staff; with the understanding that for purposes of travel, the headquarters of Mr. Lippitt will be either the home or place of business.


Secretary