

Minutes for May 19, 1958


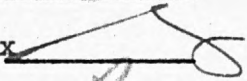
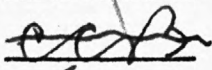
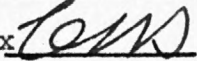
To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u></u>	_____
Gov. Szymczak	x _____	_____
Gov. Vardaman	x _____	_____
Gov. Mills	x <u></u>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	<u></u>	x <u>CCB</u>
Gov. Shepardson	x <u></u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Monday, May 19, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Leonard, Director, Division of Bank Operations
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the Board
Mr. Farrell, Assistant Director, Division of Bank
Operations
Mr. Solomon, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations

Request by Congressman Celler for certain correspondence (Item No. 1). At the meeting of the Board on May 14, 1958, consideration was given to a request from Congressman Celler that he be furnished copies of correspondence between the Board and the Department of Justice dealing with the Department's investigation of the competitive aspects of transactions contemplated by the pending applications of First New York Corporation, The First National City Bank of New York, and International Banking Corporation under the Bank Holding Company Act. It having been the conclusion of the Board that the request should not be complied with at this time, the Board approved a letter to Congressman Celler taking that position, with the understanding that it would be presented to Mr. Celler by Vice Chairman Balderston. The letter was presented on Thursday,

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May 15, at a meeting in Mr. Celler's office at which Mr. O'Connell was present along with Mr. Herbert Maletz, Chief Counsel for the Antitrust Subcommittee of the House Committee on the Judiciary.

The results of the conference with Mr. Celler were summarized in a memorandum from Mr. O'Connell dated May 15, copies of which had been distributed to the members of the Board. There had also been distributed to the Board copies of a draft of second letter which might be sent to Mr. Celler in the light of points which were discussed at the meeting in his office. At that meeting Mr. Celler handed back the Board's May 14 letter after reading it with the statement that the Board might wish to reconsider his request on the basis of his word that none of the material which might be furnished him would be made public without prior consultation with the Board and the Board's consent. If upon reconsideration, however, the Board's decision was unchanged, Mr. Celler indicated that the May 14 letter might be returned to him.

At the request of the Board, Mr. O'Connell summarized developments in the matter, including points which had been raised during the discussion between Congressman Celler and Vice Chairman Balderston. He then referred to certain changes in the draft of second letter to Mr. Celler which had been suggested by Governor Mills, and to a possible change in the May 14 letter which had been mentioned by Governor Balderston. On the latter point, which concerned the possibility of striking a sentence concerning the establishment of a precedent for demands from others in the course of future hearings, Governor Balderston had suggested that furnishing

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copies of the correspondence with the Justice Department to Congressman Celler perhaps would not establish a precedent for other demands because of Mr. Celler's position as Chairman of the Judiciary Committee and its Antitrust Subcommittee. It was pointed out, however, that any similar demands in the future might nevertheless be premised on the Board's compliance with Mr. Celler's request; also, that a copy of the Board's May 14 letter had been sent to the Department of Justice pursuant to the understanding at the Board meeting last Wednesday.

Regarding the point which had been made by Mr. Maletz during the meeting in Mr. Celler's office that copies of certain correspondence between the Board and the Department of Justice pertaining to the same applications had been forwarded to Mr. Maletz by the Board in January 1957, Mr. O'Connell stated that a distinction could be made in that the earlier correspondence bore dates preceding the commencement of the hearing in this matter and in that the subject matter was of essentially a different nature, having to do primarily with matters such as arrangements for the proposed hearing. On the other hand, the correspondence now requested had been exchanged subsequent to the commencement of the hearing and was concerned in part with the results of the investigation by the Department of Justice and plans of the Board's staff based on the results of such investigation. As Mr. O'Connell explained, a principal purpose of the second letter to Mr. Celler would be to draw distinctions between the subject matter of the earlier correspondence and the correspondence now requested.

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There followed a discussion of the question whether the statement by Mr. Celler to Governor Balderston that he would not make the correspondence public without the Board's consent should be regarded as placing the matter in a different light and creating a basis for reversal of the Board's decision against furnishing copies of the correspondence. In this connection Mr. O'Connell reviewed the legal reasons which seemed to suggest the appropriateness of refusing to comply with a request of this kind until a decision on the applications now under consideration had been rendered.

During the discussion of this point, Mr. Hackley said he agreed, for the reasons Mr. O'Connell had stated, that it would be improper in principle to transmit information of the kind requested during the course of the proceedings and just prior to oral argument. Of course, the correspondence might be obtained under subpoena, since the Judiciary Committee has the subpoena power, but the Board's position would then be clear. Perhaps no harm would come from complying with the request, but on the other hand compliance could make the Board vulnerable to charges by the applicants of acting in a manner prejudicial to their interests. Mr. Hackley felt that a distinction could properly be made between this and the earlier request on the basis of the subject matter of the correspondence involved.

At the conclusion of the discussion, it was agreed unanimously to adhere to the Board's original decision. In order to place on record

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the fact that the request had been given further consideration on the basis of the meeting in Mr. Celler's office, it was also agreed to send to Congressman Celler a second letter, with which the original letter would be enclosed, in the form attached as Item No. 1, with a copy to the Department of Justice.

Procedure in First New York Corporation matter. In view of the fact that Governor Balderston was to be away from his office for about a month on an overseas assignment after the end of this week, consideration was given to the procedure which should be followed in reaching a decision on the applications of First New York Corporation and others under the Bank Holding Company Act. Following the discussion, agreement was expressed with the suggestion that following receipt of the staff memoranda on the case which would be submitted as soon as possible following the oral argument on Wednesday, May 21, 1958, the available members of the Board could consider the matter and indicate to the legal staff a tentative decision on the basis of which a statement and order appropriate to that tentative decision could be drawn up in draft form by the staff. It was noted that the time required for the preparation of the necessary documents made it likely that Governor Balderston would return in time to participate in the final discussion and formal decision.

Mr. O'Connell then withdrew from the meeting.

Emergency planning matter. Governor Robertson stated that the Federal Reserve Banks were anxious to begin negotiations with commercial

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banks which would serve as agent banks in the event of a national emergency but that it seemed necessary, before such negotiations were started, to be in a position to inform the proposed agent banks about the program for granting credit for uncollectible checks. He then read a draft of a portion of a contemplated letter to the Federal Reserve Banks which, if the Board approved, would form the basis for discussions with the Treasury before such a letter was actually sent. The part of the letter which he read would state that Federal Reserve plans contemplated that Federal Reserve Banks, in the event of an emergency, would give credit for cash items received by them, or held for them by commercial banks, even though, because of conditions arising from enemy attack, the items were uncollectible, either because the drawee banks had suspended operations or because transportation facilities were not available. Items that could not be presented for such reasons would be held by the Reserve Banks or held for them by commercial banks until they could be presented for payment. After presentation, only such of these cash items would be returned by the Reserve Banks to their depositors as would be returned in normal circumstances for reasons of nonpayment unrelated to the emergency, such as insufficient funds, no account, forgery, etc.

In presenting the matter, Governor Robertson stated that favorable action by the Board at this time would not be binding on anyone and that the result would be simply to enable negotiations concerning the defense planning program to go forward.

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Governor Mills then restated the view he had expressed on earlier occasions that the contemplated program to prevent any bank from becoming insolvent in the event of enemy attack was unsound. In his opinion an attempt to liquefy a broken banking system in an emergency would not be workable and the only effect would be to produce a mass of uncollectible claims, the basic records on which could not be restored. He felt that the original suggestion of the Treasury was the right one; namely, that there should be a period of martial law until the country could resume business operations according to normal standards.

Following additional consideration of the matter, it was agreed to distribute copies of the memorandum read by Governor Robertson prior to further discussion of the subject by the Board.

Direct borrowing authority of the Treasury. Mr. Shay reported as a matter of information a conversation with a representative of the Treasury concerning the forthcoming expiration date of the authority of the Treasury to borrow temporarily from the Federal Reserve Banks within prescribed limitations. It appeared that the Treasury intended to submit to the Congress a bill to extend for two years the present authority and that the Board's views would then be requested by the Banking and Currency Committees.

Reserve requirement legislation. Chairman Martin referred to a memorandum from Mr. Hackley dated April 29, 1958, transmitting, pursuant to a previous request of the Board, a memorandum explaining the various

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changes which would be made in present law by the pending reserve requirements bill introduced at the Board's request. While the memorandum explained what the bill would do, it did not undertake to discuss the reasons for the changes and was therefore entirely of a factual nature.

The Chairman suggested the possibility of distributing copies of the memorandum to the members of the Federal Advisory Council prior to the Board's meeting with the Council tomorrow, and there was unanimous agreement with this suggestion.

Reference also was made to the memorandum from Messrs. Thurston and Molony which, like Mr. Hackley's memorandum, had been prepared at the Board's request, with the thought that it might furnish the basis for a statement to be presented in testifying on the reserve requirements bill. The view was expressed that this memorandum should be studied carefully by the Board before any use was made of it.

Messrs. Shay and Hostrup then withdrew from the meeting.

1957 budget experience of the Federal Reserve Banks. Under date of May 12, 1958, the Division of Bank Operations distributed to the members of the Board an analysis of the budget experience of the Federal Reserve Banks for 1957 prepared on the basis of reports received from the respective Banks. The principal purpose of the reports, furnished under the procedure established in 1953, was to draw attention to and explain significant differences between budget provisions and actual expenses in the various object and functional categories.

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In comments made at the Board's request in supplementation of the analysis, Mr. Farrell expressed the view that the Reserve Banks had done a good job on their budgets and living within them, as well as in reporting to the Board on their budget experience. He and Mr. Leonard then discussed several points raised by Governor Mills, including certain questions related to holdovers in the check collection process and the expenses of Federal Reserve Bank meetings, following which Governor Vardaman suggested a procedure in the interest of acquainting members of the Banking and Currency Committees with Reserve Bank expenses which contemplated meetings between the Board and designated members of such Committees. A possible alternative approach mentioned by Governor Szymczak contemplated invitations from the respective Federal Reserve Banks to members of the Banking and Currency Committees from their respective districts to visit the Reserve Banks for informal discussions of Reserve Bank operations and expenses.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum dated May 16, 1958, from Mr. Masters, Director, Division of Examinations, Governor Shepardson approved on behalf of the Board on that date service by J. Frank Holahan, Supervisory Review Examiner, as Judge of Election for the Seventh District, Fifth Precinct, Montgomery County, Maryland, for a period of two years beginning March 15, 1958. It was understood that only two days each year would be involved in discharging this service.

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Governor Shepardson today approved on behalf of the Board the following letters:

Letter to the Federal Reserve Bank of New York (attached Item No. 2) approving the appointment of Douglas J. Schotte as assistant examiner.

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 3) regarding the assignment of J. Donald Murray of that Bank to the Board's Division of Examinations for a period of approximately one month, effective May 19, 1958. Appointment of Mr. Murray as an Assistant Federal Reserve Examiner for the period May 19 to June 20, 1958, was also approved by Governor Shepardson.


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
5/19/58

OFFICE OF THE CHAIRMAN

May 19, 1958

The Honorable Emanuel Celler, Chairman,
Committee on the Judiciary,
House of Representatives,
Washington 25, D. C.

Dear Chairman Celler:

Reference is made to the matter of the applications of First New York Corporation, et al., pursuant to section 3 of the Bank Holding Company Act of 1956, concerning which, by letter dated May 12, 1958, you requested that you be furnished with a copy of the correspondence between the Board and the Department of Justice dealing with the Department's investigation of the competitive aspects of the transaction proposed under these applications.

At a meeting in your office on May 15, requested by Governor C. Canby Balderston of the Board, at which there were present, in addition to yourself and Governor Balderston, Mr. Herbert Maletz of your staff and Mr. Thomas J. O'Connell of the Board's staff, Governor Balderston tendered the Board's written reply to your request of May 12. For the reasons contained in the letter it was stated that the Board felt it would be inappropriate at this time to furnish a copy of the requested correspondence between the Board and the Department of Justice. However, the Board's letter stated that after a decision in this matter had been rendered by the Board, if you should still desire this correspondence, the Board, with the written consent of the Department of Justice, would be glad to furnish you with a copy of all such correspondence.

Pursuant to your suggestion that the Board might wish to further consider your request in the light of expressions made during the meeting in your office, Governor Balderston agreed to withhold the Board's response pending such further consideration. As conveyed by Governor Balderston and Mr. O'Connell, I understand it to be your opinion, as well as that of Mr. Maletz, that the Board's transmission of the requested correspondence would merely follow an earlier action

The Honorable Emanuel Celler -2-

by the Board by which you were given copies of correspondence from the Department of Justice on the same subject. Further, it was evidently your feeling that possession and use by this Board of any material forwarded by the Department of Justice, without full disclosure of the nature of such material to the parties, would constitute an "in camera proceeding" unfair to the parties. For this reason, I understand that it was your opinion that such material should have been made a part of the public record.

The correspondence between the Board and the Department of Justice, copies of which were furnished Mr. Maletz by letter, dated January 25, 1957, all bore dates preceding the commencement of the hearing in this matter. Only the Department's letter of January 29, 1957, enclosing a copy of a letter to the President of The First National City Bank of New York, was written subsequent to the commencement of the hearing. The Board's letters to the Department of Justice were concerned primarily with advising the Department of the then proposed details of the hearing and furnishing the Department with copies of the applications and statements of the Board's position as to the particular statutes applicable in this type of hearing. The correspondence from the Department to the Board advised generally of the investigation then proposed by that Department, stated the Department's then indecision on submitting testimony in the hearing and reserving a right to file a brief or a statement at a later date, and enclosed a copy of the Department's letter to the President of The First National City Bank of New York advising of the Department's interest in this matter and requesting specific information from that bank.

The correspondence which you now request of the Board has been exchanged subsequent to the commencement of this hearing and rather than referring to future plans of investigation and procedure, concerns itself, in part, with the results of the Department's investigation and plans of the Board's staff based on such results. The latter correspondence, therefore, would appear to be of an essentially different nature and to far more acutely affect the actual conduct of the proceedings. Whereas the Department of Justice advised the applicants of its proposed plan to evaluate the effect of the formation of this bank holding company in light of the antitrust laws, that Department does not appear to have furnished the applicants with the material which is involved in your present request. The Board's decision not to make this correspondence available to the parties does not arise from any unwillingness to cooperate with the parties, but rather, from respect for the confidentiality of communications between regulatory bodies.

The Honorable Emanuel Celler

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The above conclusion should not be construed as an intent by the Board to receive and consider ex parte evidence from the Department of Justice or any other agency against the applicants. If you recall, Governor Balderston and Mr. O'Connell indicated their agreement with your opinion that any material received from the Department of Justice relative to this or any other matter being considered by the Board at the time of its receipt of such material should be used by the Board in its decision function only if the material is introduced in the record in such a form that all parties would have suitable opportunity to challenge either the substance of the opinions expressed or to inquire into the competency of a particular witness or as to his personal interest or bias, if any. For this reason, following receipt from the Department of Justice in May 1957 of a memorandum summarizing that Department's investigation in the First New York Corporation matter, it was determined that the opinions of persons interviewed by the staff of the Department of Justice and summarized in this memorandum should not be used as evidence in that form. To avoid such use, but at the same time to gain the greatest benefit from the assistance rendered by the Department of Justice, Board counsel and other members of the Board's staff undertook a field investigation paralleling, in a modified form, that undertaken by the Department and described in its memorandum. Subsequently, there was conducted a two-day session of this hearing in New York City during which several of the persons originally interviewed by the Department of Justice appeared and testified and were subjected to examination by all parties. In the Board's judgment, use of these opinions in any form other than above described, although not specifically precluded in this type of hearing by the Administrative Procedure Act, would have violated the basic requirements of a fair hearing and the specific requirement of the Administrative Procedure Act that, in a case such as this, there be given ". . . due regard to the rights or privileges of all the interested parties or adversely affected persons. . . ."

For these reasons, in reaching a decision in this matter, no material of an alleged evidentiary nature, whether received from the Department of Justice or any other agency, will be considered by the Board except as the same appears in the record properly admitted. The Board does not believe that this position precludes use by its staff of relevant memoranda of law which may be made available by the Department of Justice, nor consideration by the Board of summaries and analyses of the hearing record prepared by its staff.

Upon further deliberation of your request, including consideration of your expressions and those of Mr. Maletz, as well as the reasons expressed in the Board's original response to your request, which response is herewith enclosed, the Board continues to be of the opinion that it would be inappropriate to furnish a copy of the subject correspondence at this time.

The Honorable Emanuel Celler -4-

As indicated before, should you still desire the correspondence following a rendition of a decision in this matter, the Board would be glad to comply with your request as outlined in the enclosed letter.

Your courtesy in meeting with Governor Balderston on this matter is appreciated.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25. D. C.

Item No. 2
5/19/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 19, 1958

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of May 15, 1958, the Board approves the appointment of Douglas J. Schotte as an assistant examiner for the Federal Reserve Bank of New York. Please advise as to the date upon which the appointment is made effective.

It is noted that Mr. Schotte is indebted to The Farmers and Merchants National Bank of Matawan, Matawan, New Jersey, in the amount of \$1,200. Accordingly, the Board's approval is given with the understanding that Mr. Schotte will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 3
5/19/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 19, 1958.



Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Bopp:

This is to confirm the arrangements which Mr. Robert C. Masters, Director of the Board's Division of Examinations, made informally with Vice President E. C. Hill to have Mr. J. Donald Murray assigned to the Board's Division of Examinations for a period of approximately one month beginning May 19, 1958, to assist in the audit of the System Open Market Account.

It is understood that the Federal Reserve Bank of Philadelphia will wish to pay Mr. Murray's travel, salary and other related expenses while on this assignment but will request the Board for reimbursement. This will be satisfactory.

We appreciate very much the willingness of the Bank to make Mr. Murray's services available for this work and look forward with pleasure to having him with us. Since he may wish to spend week-ends at his home in Philadelphia, this travel expense will be regarded as reimbursable.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.