

Minutes for July 23, 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>MM</u>	_____
Gov. Szymczak	x _____	_____
Gov. Vardaman	x _____	_____
Gov. Mills	x _____	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>CSM</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Wednesday, July 23, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant Secretary  
Mr. Thurston, Assistant to the Board  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Young, Director, Division of Research and  
Statistics  
Mr. Masters, Director, Division of Examinations  
Mr. Molony, Special Assistant to the Board  
Mr. Solomon, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of  
Examinations

Application for approval and reservation of a name for a proposed  
Edge Act financing corporation (Item No. 1). At the meeting of the Board  
yesterday, preliminary consideration was given to an application from  
parties affiliated with the Chemical Corn Exchange Bank of New York City  
for approval and reservation of the name "Chemical International Finance,  
Ltd." for a corporation proposed to be organized under section 25(a) of  
the Federal Reserve Act which after organization would be owned by the  
State member bank.

Pursuant to the understanding at yesterday's meeting, Mr. Goodman  
reviewed the background of section 10(c)(2) of Regulation K, which  
provides that no Edge Act financing corporation "hereafter organized"

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shall have a name which is similar to the name of, or identifies the corporation with, any bank in the United States with which such financing corporation is affiliated. He pointed out that the Special Committee on Foreign Operations of American Banks (the so-called Neal Committee) recommended that a very broad scope of activities be permitted for financing corporations, and at the same time recommended limiting the liability of the parent institution, both as to any one such subsidiary and as to all such subsidiaries which it might own. It was felt by the Committee that if anyone purchased obligations of the subsidiary corporation, he should look to that corporation rather than to the parent bank, and in this connection the Committee had in mind that the financing corporations would be allowed to issue debentures.

That, Mr. Goodman said, appeared to be the genesis of the restriction contained in section 10(c)(2) of Regulation K. He went on to say that he had reviewed the draft of revised Regulation K prepared by the System Legal Committee on the basis of the work of the Neal Committee and that the only difference between that draft and the present Regulation was that the words "hereafter organized" were not found in the original draft. The draft of revised Regulation K, as published in the Federal Register, was identical with the present Regulation, and publication in the Federal Register did not appear to have resulted in any comments on section 10(c)(2). Mr. Goodman said he did not recall that in Board or

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staff discussion preceding the adoption of the revised Regulation there was any comment on this particular point.

Governor Shepardson said he seemed to recall that in the course of discussion of the proposed revised Regulation K the point was brought out that, as stated by Mr. Goodman, a desire to limit the liability of the parent institution was the reason for the recommendation that Regulation K include the present restriction concerning the name of an Edge Act financing corporation. As he understood the situation at the time, that seemed to be a valid point. However, if he recalled correctly, the statement also was made that a large American bank which was the owner of such a corporation perhaps would have to stand behind its subsidiary whether it had a legal responsibility or not.

Governor Shepardson then referred to the precedent established when the Board permitted the use of the name "Chase International Investment Corporation" when The Chase Bank transferred to the status of a financing corporation. He said that he did not particularly like the approach of making exceptions and that it seemed to him it would be preferable to consider whether the provisions of section 10(c)(2) should be revised. On the other hand, as he stated yesterday, he doubted the wisdom of an immediate decision to amend the Regulation without adequate consideration of the background of the matter. While he would not have any serious objection to waiving the provisions of the Regulation in this case, he did

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not feel that the Board could continue indefinitely on the basis of making exceptions.

In further discussion, it was noted that section 10(c)(2), at least in its literal terms, refers to a financing corporation "hereafter organized." It was pointed out that this was the first case to come before the Board involving a financing corporation not yet organized.

The alternative courses of action in this case then were summarized by the Chairman, following which Governor Vardaman stated that he would like the Board to consider waiving the requirements of Regulation K in this instance and then to consider amending the Regulation at some future date. In the meantime, he suggested, the staff might give some thought to the possibility of language pursuant to which an Edge Act financing corporation would be required to have a name such as to clearly identify it with the parent institution, in order to prevent irresponsible actions and cause the parent bank to consider carefully the activities of its subsidiary. It was his view that the parent company could not escape at least a moral obligation.

Mr. Solomon recalled that the thinking of the Neal Committee was along the lines that in the case of an Edge Act banking corporation it would be impracticable and probably undesirable to separate the responsibilities of the subsidiary and its parent institution. With respect to a financing corporation, however, the thought was that it might be possible to separate the responsibilities and that an effort could be made

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in that direction by provisions such as found in section 10(c) of Regulation K, which place limitations on the extent to which the parent can support the subsidiary and require that the names must be disassociated. That was the reasoning of the Neal Committee, but whether one agreed with it was, of course, another question.

Governor Robertson said it seemed to him from the discussion that the majority of the Board regarded as acceptable the name requested for the proposed Edge Act financing corporation. He then suggested as a possible course of action that Regulation K be amended in such a way as to make approval of the name of a proposed financing corporation discretionary with the Board of Governors. In such event it would not be necessary to waive the provisions of the Regulation, and the interested parties could be informed that the name would be authorized when the amendment to the Regulation had been adopted. His suggestion contemplated that a proposed amendment to the Regulation would be published in the Federal Register.

Governor Mills stated that he would prefer to waive the provisions of the Regulation in this instance and let some period of time elapse before the Board considered amending the Regulation. The reason he would prefer not to amend the Regulation at this time was that such action would give public notice to a matter which was not of particular importance but which might be exaggerated in the present speculative climate. It was possible, he suggested, that less responsible firms might be encouraged to enter this

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field and seek to use names similar to those of American banks. While this was perhaps unlikely, in any event he would consider it inadvisable to do anything at this time which would publicize a relaxation of the provisions of Regulation K.

After other members of the Board had expressed agreement with the position taken by Governor Mills, Chairman Martin suggested that the pertinent provision of Regulation K be waived in the case of the application now before the Board, and that the matter of a possible amendment of Regulation K be put down for further consideration one month from this date.

The procedure suggested by Chairman Martin was agreed upon, with the understanding that Governor Robertson would have preferred to proceed along the lines he had suggested. A copy of the letter transmitted to the applicants through the Federal Reserve Bank of New York pursuant to this action of the Board is attached under Item No. 1.

Mr. Goodman then withdrew from the meeting and Messrs. Allison, Special Consultant to the Board, and Farrell, Associate Director, Division of Bank Operations, entered the room.

Operation Alert 1958. At the request of Governor Robertson, Mr. Fauver presented a statement reviewing problems considered last week at the Board's relocation site during Operation Alert 1958. A copy of Mr. Fauver's statement is being placed in the Board's files.

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In his comments, Mr. Fauver referred to certain problems which were deemed to require further consideration and stated that they would be presented in the form of memoranda to the Board and to the Federal Open Market Committee.

In remarks supplementing Mr. Fauver's statement, Governor Robertson said that the group at the relocation site endeavored to review the planning that had been done by the Federal Reserve System and by others operating in fields of interest to the System. Then, in the light of the assumptions of Operation Alert 1958, the group considered what broad policies would be most appropriate and gave attention to the gaps in emergency planning that seemed to require further attention. As Mr. Fauver had stated, some of those matters would be presented to the Board and to the Federal Open Market Committee. Governor Robertson referred to the need for more work on a continuing basis by groups in various planning areas in lieu of the present practice of considering emergency planning problems more or less on a once-a-year basis. He stated that this work should be approached from the point of view that it was a very serious proposition and that the Federal Reserve System should be in a position to move as efficiently as possible in the event of an actual emergency.

Mr. Allison pointed out that this year the Federal Reserve Banks would be required to send to the Board by the first of August their answers to a rather extensive questionnaire. The Board would then have until

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August 11 to file a consolidated evaluation of the exercise, which would include the reports from the Federal Reserve Banks.

The review of Operation Alert 1958 concluded with an expression of appreciation for the leadership given to the Board's emergency planning program by Governor Robertson as well as for the work done by the staff at the relocation site, including staff members of Federal Reserve Banks who were assigned to the relocation site during the exercise.

Messrs. Fauver, Masters, Allison, and Farrell then withdrew from the meeting and there ensued an informal discussion of Treasury financing problems and developments in the Government securities market.

Salary for officer of Federal Reserve Bank (Item No. 2). There had been circulated to the members of the Board a file relating to the request of the Federal Reserve Bank of Chicago for approval of the payment of salary to Richard A. Moffatt as Assistant Cashier at the rate of \$10,000 per annum.

Pursuant to the favorable recommendation of the Division of Personnel Administration, unanimous approval was given to the letter to the Federal Reserve Bank of Chicago of which a copy is attached as Item No. 2.

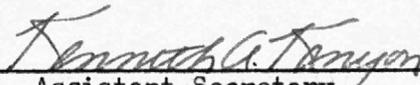
The meeting then adjourned.

Secretary's Note: With the approval of Governor Shepardson, there was sent today to the National Labor Relations Board a

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letter requesting an extension of the detail to the Board of Governors of Arthur Leff, Hearing Examiner, for an additional period of six months beginning August 1, 1958, on the same basis as the original detail, as set forth in the Board's letter of January 22, 1957. A copy of the letter to the National Labor Relations Board is attached as Item No. 3.

  
Assistant Secretary

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

Item No. 1  
7/23/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 23, 1958



Mr. Clinton C. Johnson,  
165 Broadway,  
New York 6, New York.

Dear Sir:

In accordance with the request contained in an application, signed by you and other prospective shareholders under date of May 27, 1958, as amended on June 25, 1958, for approval and reservation of the name of a corporation to be organized for the purpose of engaging in international or foreign financial operations (other than banking) pursuant to Section 25(a) of the Federal Reserve Act, the Board of Governors has approved the name "Chemical International Finance, Ltd." and this name will be reserved for a period of six months. It is understood that the Home Office of the proposed corporation will be located at 165 Broadway, New York 6, New York.

You will understand that this approval and reservation of name does not constitute the approval of the organization of a corporation and upon receipt of the proposed articles of association, organization certificate, and other relevant information, consideration will be given to those aspects of the matter.

Very truly yours,

A handwritten signature in cursive script that reads "Kenneth A. Kenyon".

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 2  
7/23/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 23, 1958

Confidential (FR)

Mr. Carl E. Allen, President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approved the payment of salary to the following newly appointed officer of the Federal Reserve Bank of Chicago for the period September 1 through December 31, 1958, at the rate indicated, which is the rate fixed by your Board of Directors, as reported in your letter of July 10, 1958:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Richard A. Moffatt	Assistant Cashier	\$10,000

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 3  
7/23/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 23, 1958

National Labor Relations Board,  
Washington 25, D. C.

Attention: Mr. Arthur H. Lang

Gentlemen:

Reference is made to the detail to the Board of Governors of Mr. Arthur Leff, Hearing Examiner, GS-15, previously agreed to by you in your letter of January 21, 1958.

Under the terms of Mr. Leff's detail, he was made available to this Board for a six-month period beginning February 1, 1957, to preside at one or more hearings ordered to be held under the Bank Holding Company Act of 1956. It was agreed that the National Labor Relations Board would be reimbursed for Mr. Leff's salary and for any travel expenses involved, salary reimbursement to be made only for the time in which Mr. Leff was actually engaged in connection with the said hearings. Under the extension of Mr. Leff's detail he was made available to this Board for an additional six-month period beginning August 1, 1957, and for another six-month period beginning February 1, 1958.

It now appears that Mr. Leff's services will be required for an additional period of time. It is difficult at this time to predict the precise additional time which will be required, but it is believed that an additional period of six months would reasonably cover such need.

Therefore, the Board of Governors requests that the National Labor Relations Board extend Mr. Leff's detail for an additional period of six months beginning August 1, 1958, on the same basis as the original detail as set forth in a letter from this office, dated January 22, 1957.

It will be appreciated if you will confirm this extension of the reimbursable detail in order that the necessary arrangements can be made with the Civil Service Commission in connection with confirmation of the extension of Mr. Leff's services.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

