

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 proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 10. Increase in margin requirements.

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>(M)</u>	
Gov. Szymczak		x <u>[Signature]</u>
Gov. Vardaman	x <u>(V)</u>	
Gov. Mills	x <u>[Signature]</u>	
Gov. Robertson		x <u>R</u>
Gov. Balderston	x <u>CB</u>	
Gov. Shepardson	x <u>[Signature]</u>	

Minutes of the Board of Governors of the Federal Reserve System
on Monday, August 4, 1958. The Board met in the Board Room at 10:30
a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Vardaman
Mr. Mills
Mr. Shepardson 1/

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Young, Director, Division of Research
and Statistics
Mr. Masters, Director, Division of Examina-
tions
Mr. Molony, Special Assistant to the Board
Mr. Shay, Legislative Counsel
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of
Examinations

Discount rates. Unanimous approval was given to a telegram to
the Federal Reserve Bank of Minneapolis approving the establishment
without change by that Bank on July 31, 1958, of the rates on discounts
and advances in its existing schedule.

Suit by Old Kent Bank and Trust Company. The meeting then
turned to a consideration of questions of procedure in connection with
the action instituted by Old Kent Bank and Trust Company, of Grand
Rapids, Michigan. Initial information regarding the filing of this
suit had been presented to the available members of the Board at an
informal meeting on Friday, August 1. There had been distributed to the
members of the Board prior to this meeting copies of the Complaint for

1/ Entered the meeting at point indicated in minutes.

8/4/58

-2-

Declaratory Judgment furnished to the Board by Mr. Gerhard A. Gesell, of Covington & Burling, Washington counsel for the Old Kent Bank. Official service by an officer of the Court had not yet been made when the Board met. The Chairman asked Mr. Solomon to present the recommendation of the Legal Division concerning the distribution of the legal burden in connection with this proceeding.

Mr. Solomon began his comments by indicating that because this was a matter which would affect the work-load of the Legal Division over a considerable period of time, he had contacted Mr. Hackley to obtain his views and the comments which followed represented a consensus of the Division's staff. He reviewed briefly the history leading up to the filing of the Complaint which had begun with a request for approval of the establishment of seven branch offices in connection with a proposed merger of the Old Kent Bank and Michigan Trust Company and Peoples National Bank of Grand Rapids. This application was turned down by the Board on May 23. Upon further request, the matter was reconsidered and on May 28 the Board again notified the applicants that the Board could not approve the establishment of the branches because it appeared that the transaction would result in a significant reduction in competition for banking business in the Grand Rapids area which might be contrary to the public interest. After further negotiations between the applicants and the Board were unsuccessful, the two banks went ahead with their merger on July 31, including the operation of the branch banks for which the Board had declined to give its approval. On August 1,

8/4/58

-3-

the Old Kent Bank and Trust Company which resulted from the merger had filed the Complaint in the District Court for the District of Columbia as a means of obtaining a judicial review of the Board's action in declining to approve the branch offices. Mr. Solomon pointed out that in this case the Board did not have authority to pass on the merger itself and that by its action Old Kent was testing the Board's authority to deny the branches. He said it was difficult to tell what the future course of the litigation might be. It might be essentially directed to legal arguments on various motions which would be made. On the other hand, the Court might undertake a factual determination on the question of the lessening of competition, in which case there might be a prolonged trial proceeding not unlike the First National City case, even though the latter was only an administrative proceeding.

From the Friday discussion, Mr. Solomon said, the Legal Division had gathered the impression that the available members of the Board would prefer to go right to the merits of the question regarding the Board's authority rather than to seek another ground for determining the question such as a direct contest of Old Kent's action in operating the branches without the Board's consent. The Legal Division had also been asked to come up with its recommendation regarding possible alternatives for distributing the legal burden in this case between the Department of Justice, the Board's own Legal Division, and possibly outside counsel.

According to the law, the District Attorney's office had the ultimate authority for calling the turn on who would represent the Board

8/4/58

-4-

in this matter since it was clear that it was the responsibility of the Department of Justice to supervise activities of the Federal agencies in this respect. This is the way in which previous court litigation involving the Board had been handled, even though the Board's own personnel had contributed substantially to the work involved.

Legally, then, Mr. Solomon said, the question now before the Board was a matter for decision by the District Attorney's office. On the other hand, it was highly probable that the District Attorney's office would not be eager to take on additional work and would not object if the Board wished to undertake the burden of the litigation with its own staff. There was some question, however, about how the District Attorney's office might feel with regard to major reliance being placed on outside counsel.

He pointed out that litigation of this type was to be distinguished from those administrative proceedings in which a separation of functions between the prosecutor and the adjudicator was involved. In this instance, the staff need not be divided and, therefore, it may not be quite as necessary to have outside counsel. By the same token, he added, the use of outside counsel was not precluded.

In practice, the Department of Justice probably would be agreeable to whatever arrangements the Board would like to make and, therefore, it was a matter for consideration and decision by the Board at this time. The alternatives, however, were not quite clear-cut. Even if the Board should decide that the Department of Justice should take over the matter

8/4/58

-5-

completely, some help by the Board's legal staff would be necessary. Likewise, if the Board should decide that its staff should handle the major share of the litigation, the assistance of the Department of Justice would still be important in the handling of the brief and other matters of procedure, and the same would be true with regard to the use of outside counsel. To some extent, he said, the alternatives merged into each other.

Mr. Solomon then outlined the principal advantages and disadvantages of the alternate choices facing the Board. With regard to turning the major share over to the Department of Justice, there would be an advantage in that there would be less burden on the staff and on the Board itself. At the same time, the Department of Justice might not be able to give the case as close attention as the Board might like and it was inevitable that it would be less familiar with the banking aspects of the case. If the principal part was to be played by the Board's Legal Division, it would have the advantage of greater familiarity with regard to the subject matter and it would also tend to be more flexible in distributing the burden. Adverse considerations included a substantially increased work-load which might indirectly affect the ability of the staff to serve the Board in other matters. Also, it might be more difficult for the Legal Division, being so close to the work, to maintain as objective a point of view. Finally, with regard to the employment of outside counsel, Mr. Solomon stated the advantages included the preservation of an objective point of view, a lessened

8/4/58

-6-

burden on the staff, and possibly the addition of a certain amount of prestige which the name of an outside counsel might bring. Conversely, outside counsel would be less familiar with the subject matter, less flexible, and in addition to the expense involved such counsel might not have appreciation for the Board's full point of view from the supervisory standpoint.

In summarizing the point of view of the Division, Mr. Solomon said they were inclined to feel that the Board's own staff should carry as large a part of the load as possible, working with and assisted by the staff of the District Attorney's office and the Department of Justice. It was not their recommendation, he said, that it be considered necessary in this instance to take on outside counsel. It was pointed out that Mr. O'Connell had previously worked in the District Attorney's office, which experience, it was believed, would be of material assistance in obtaining maximum benefit from that office. He did indicate, however, that if the Legal Division took on a major share of the responsibility, it might be necessary to utilize the services of some Reserve Bank personnel for certain functions, as had been done in similar instances in the past.

Governor Vardaman inquired whether this case would be eligible for appeal to the Supreme Court and Mr. Solomon replied that this was a possibility depending upon the turn of the case and whether the Supreme Court would grant a writ of certiorari. Governor Vardaman then asked whether there would be any disadvantage in having members of the Board's staff appearing in court in cases of this sort, expressing concern that the

8/4/58

-7-

future usefulness of members of the staff might be jeopardized by exposure on the firing line in cases of this type. He wondered whether the Board would be somewhat protected if the actual presentations of the case were to be made either by the District Attorney's office or by outside counsel. Mr. Solomon said he assumed that the District Attorney would be agreeable either to a member of the Board's staff handling the argument or to a member of his own staff. Mr. Hexter cited recent litigation involving the Comptroller of the Currency where the District Attorney's office handled the briefs and arguments with considerable help from the staff of the Comptroller's office but without actually involving them personally in the proceedings. Governor Vardaman said that would meet his point and that, therefore, he would prefer to have the matter handled through the District Attorney's office with our staff providing as much assistance as they possibly could.

Governor Mills said he would go along with the recommendation of the Legal Division that it assume the major burden of preparation for the litigation with a minor role to be played by the District Attorney's office. He thought the Federal Reserve was the logical body to take the lead in defending the suit and it would be expected by the banking world to carry the major burden of the case.

Governor Balderston agreed with the views of Mr. Mills but thought there would be an advantage to the District Attorney's handling of the courtroom presentation. He reiterated his previously expressed view that this was a very important case in clarifying the position

8/4/58

-8-

and authority of the Board in an important aspect of its operations.

Chairman Martin said that Mr. Solomon's careful presentation indicated to him that the Legal Division had considered all of the aspects of the matter and that he was prepared to go along with their recommendations. He thought it should be understood, however, that this decision might be subject to change as the case developed, and he thought the Legal Division might want to come back to the Board with a change in plans if the circumstances warranted.

There was unanimous agreement with the Chairman's suggestion and the Legal Division was authorized to proceed on that basis.

At this point Governor Shepardson joined the meeting and, upon being apprised of the nature of the foregoing discussion, expressed concurrence in the procedural decision reached by the Board.

At Governor Balderston's request, Mr. Solomon then reported to the Board on a series of conversations with the Federal Reserve Bank of Chicago regarding the handling of business transactions involving the merged bank and its unauthorized branches. The particular question involved was whether these items could be handled without prejudice to the pending litigation. Mr. Solomon said he also had had a call from the office of Washington counsel for the Old Kent who said the bank understood instructions had gone out from the Board "not to function any matters for the Old Kent Bank." Mr. Solomon assured him that no such instructions had gone out.

8/4/58

-9-

Mr. Solomon felt that it would be desirable to attempt to get a caveat which would be agreed to by the Old Kent group to the effect that transactions subsequent to the merger would be carried out without prejudice to the position of either party. Governor Balderston urged that such a caveat be worked out with extreme care.

It was understood that the Legal Division would transmit this procedural suggestion to the Federal Reserve Bank of Chicago informally.

Thereupon all the members of the staff withdrew except Mr. Fauver.

Director appointment. Chairman Martin then called to the Board's attention a memorandum from Mr. Fauver dated July 30, 1958, which had been distributed prior to the meeting, regarding possible appointees to fill the vacancy created by the recent death of Mr. F. Albee Flodin, Class C director of the Federal Reserve Bank of Minneapolis. The Chairman reported that he had talked over these suggestions with both Chairman Perrin and President Deming who agreed that of the group Mr. John H. Warden, President of the Upper Peninsula Power Company, of Houghton, Michigan, was the outstanding choice. Their next preference was for Mr. Robert Archibald, of Negaunee, Michigan, Executive Vice President of the North Range Mining Company.

After a brief discussion, it was understood that steps would be taken to ascertain whether Mr. Warden would accept appointment, if tendered, to the unexpired portion of a term ending December 31, 1958, and that the appointment would be made if it were found that he would accept. It was also understood that if Mr. Warden did not accept, similar steps would be taken concerning Mr. Archibald.

8/4/58

-10-

Mr. Fauver then withdrew, Mr. Riefler entered the room, and the Board went into executive session.

Following a recess, the Board continued in executive session at 2:30 p.m. with Messrs. Thurston and Riefler present. At 3:00 p.m., the Board recessed for a telephone meeting of the Federal Open Market Committee and then reconvened at 3:35 p.m. with Messrs. Kenyon, Thurston, Riefler, Young, Molony, Solomon, and Keir of the staff present.

Margin requirements (Items 1, 2, and 3). Chairman Martin referred to informal discussion by the Board earlier today concerning developments in the stock market, including the continuing increase in the amount of credit used for stock market purposes over the past several months. He noted that an increase in margin requirements from 50 to 70 per cent would mean a return to the level that prevailed prior to the Board's action reducing margin requirements in January of this year. In response to questions by Governor Vardaman regarding whether the current volume of credit in the stock market would indicate going higher than 70 per cent based on actions taken by the Board on occasions in the past, the Chairman indicated that in his opinion an increase in the margin requirements to a point higher than 70 per cent would call more attention and place more emphasis on the situation than he would consider desirable.

There followed a further discussion of the trend and volume of stock market credit in relation to periods in the past, including the 1953-54 period.

8/4/58

-11-

At the conclusion of this discussion, it was agreed unanimously to amend the supplements to the Board's Regulations T and U, effective tomorrow, to provide for an increase in the margin requirements from 50 to 70 per cent, the increased requirements to be applicable both to purchases and short sales.

Question was raised regarding when announcement of the Board's action would be most appropriate and it was suggested that the announcement should be made at 4:30 p.m. E.D.S.T. today in order that it might be carried on the ticker this afternoon and in tomorrow's early editions of the newspapers and financial journals, with a view to affording adequate notice to all interested parties. While it was recognized that the exchanges on the West Coast would not close for the day until after the Board's statement had been released, the view was expressed that the consequences were not apt to be severe and that the advantages of prompt announcement would outweigh any disadvantages that might be involved. In this connection, the Chairman pointed out that it would be incumbent upon him as a matter of courtesy to advise appropriate officials within the Government concerning the action that had been taken.

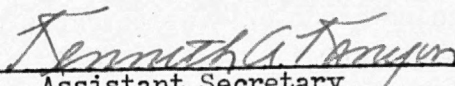
Accordingly, it was understood that a press statement in the form attached as Item No. 1 would be released today at 4:30 p.m. E.D.S.T., that a telegram advising of the Board's action would be sent to all Federal Reserve Banks and branches, and that an appropriate notice would be sent to the Federal Register. Copies of the supplements to Regulations T and U, as amended by the Board's action, are attached under Items 2 and 3, respectively.

8/4/58

-12-

The meeting then adjourned.

Secretary's Note: On the basis of the information contained in a memorandum dated July 31, 1958, from Mr. Kenyon, Assistant Secretary, Governor Balderston, acting in the absence of Governor Shepardson, noted on behalf of the Board on August 1, 1958, the approval by the Retirement System of the Federal Reserve Banks of the application for retirement benefits submitted by S. R. Carpenter, Secretary of the Board of Governors, effective August 1, 1958.


Assistant Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 1
8/4/58

Statement for the Press

August 4, 1958.

For release at 4:30 p.m. EDST,
Monday, August 4, 1958.

The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by increasing margin requirements from 50 per cent to 70 per cent, effective August 5, 1958. The increased requirements apply to both purchases and short sales. No other change was made in the regulations.

Item No. 2
8/4/58

SUPPLEMENT TO REGULATION T

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective August 5, 1958

Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to section 3 of Regulation T, shall be 30 per cent of its current market value.

Margin required for short sales in general accounts. - The amount to be included in the adjusted debit balance of a general account, pursuant to section 3(d)(3) of Regulation T, as margin required for short sales of securities (other than exempted securities) shall be 70 per cent of the current market value of each such security.

Item No. 3
8/4/58

SUPPLEMENT TO REGULATION U

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective August 5, 1958

For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 30 per cent of its current market value, as determined by any reasonable method.