

Minutes for February 13, 1959

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>TM</u>	_____
Gov. Szymczak	x <u>MS</u>	_____
Gov. Mills	x <u>MS</u>	_____
Gov. Robertson	x <u>R.</u>	_____
Gov. Balderston	x <u>CB</u>	_____
Gov. Shepardson	x <u>MS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System
on Friday, February 13, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Economic Adviser to the
Board
Mr. Hackley, General Counsel
Mr. Molony, Special Assistant to the
Board
Mr. Noyes, Adviser, Division of Research
and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division
of Examinations
Mr. Nelson, Assistant Director, Division
of Examinations
Mr. Hill, Assistant to the Secretary
Mr. Brill, Chief, Capital Markets Section,
Division of Research and Statistics

Discount rates. Unanimous approval was given to the establishment
without change by the Federal Reserve Banks of Richmond, St. Louis,
Minneapolis, Kansas City, and Dallas on February 12, 1959, of the rates
on discounts and advances in their existing schedules.

Items circulated to the Board. The following items, which
had been circulated to the Board and copies of which are attached to
these minutes under the respective item numbers indicated, were approved
unanimously:

1/ Entered meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to the Millburn-Short Hills Bank, Millburn, New Jersey, granting an extension of time within which to accomplish membership in the Federal Reserve System. (For transmittal through the Federal Reserve Bank of New York)	1
Letter to the Federal Reserve Bank of San Francisco requesting additional information with regard to the application of First Security Corporation, Salt Lake City, Utah, for a prior tax certification.	2
Letter to the Senate Committee on Banking and Currency concerning S. 131, a bill to amend section 2(b) of the Bank Holding Company Act of 1956. (With a copy to the Bureau of the Budget)	3

Messrs. Hostrup and Nelson then withdrew from the meeting.

Withdrawal and substitution rules. Discussion of the withdrawal and substitution rules under the Board's margin regulations at the meeting on January 13, 1959, concluded with the understanding that the matter would be considered again after the December figures on stock market credit became available. In the light of those figures, which showed a further increase in credit, there had been distributed to the Board, with a covering memorandum from Mr. Young dated February 12, 1959, a summary of recent developments in the stock market and a listing of reasons that might be given for and against modification of the present withdrawal and substitution rules.

Following comments by Mr. Brill based on the information contained in the memorandum on stock market developments, there was a general discussion of the recent trend of stock market credit and the effect of

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the two increases in margin requirements made by the Board last fall. There was also discussion of the impact of stricter withdrawal and substitution rules on brokerage house operations, as well as the possible effect of a tightening of the rules on the course of the market under various circumstances.

Governor Mills raised the question whether a tightening of the withdrawal and substitution rules might not do more to damage legitimate trading in the stock market than to prevent an excessive use of credit. The effect, he suggested, might be to drive stock market credit underground where it could not be reached.

Governor Robertson agreed that immediate tightening of the withdrawal and substitution rules to a parity with the current margin requirements would have too harsh an effect. It was his view, however, that a start should be made toward closer alignment so that eventually the margin requirements and the withdrawal and substitution rules could be placed on a comparable basis. While he was not sure how much tightening of the rules would be appropriate at the present time, he was impressed by the arguments in favor of some change.

Governor Shepardson directed a number of technical questions to the staff regarding the withdrawal and substitution rules and related matters, following which he stated that he found it difficult to determine what should be done in this area. While he was concerned about the problem, he did not at this time have a solution.

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At this point Chairman Martin joined the meeting and Governor Balderston summarized for him the discussion thus far.

At the Board's request, Mr. Solomon reviewed the nature of changes that might be made in the withdrawal and substitution rules to implement the suggestion of Governor Robertson.

There followed further comments by the staff with respect to the operation of the withdrawal and substitution rules, after which consideration was given to the problem of unregulated lenders and the reasons why the Board thus far had concluded not to extend the margin regulations to cover them.

Governor Balderston observed that the volume of reported stock market credit had increased less rapidly in recent months, which might reflect the margin requirement increases along with a factor he referred to as "negative carry". It was understandable, he said, that a certain amount of credit was needed simply to lubricate the market. However, the existence of underground sources of credit left an implication that the Board was not pursuing its regulatory job properly. He felt that Regulation U offered a possibility for diminishing the flow of credit to these sources and that it would be appropriate to consider tightening the provisions of that regulation, even if the success achieved thereby was only moderate.

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At Governor Balderston's request, Mr. Solomon then reviewed steps that might be taken to tighten the provisions of Regulation U, as outlined in a memorandum from him to the Board dated November 4, 1958.

Chairman Martin expressed the opinion that all of the possibilities mentioned at this meeting should be studied carefully in order to see what they would involve. If the point had been reached where the Board considered various actions necessary, he felt that those steps should be taken without regard to the effect on relationships between the Board and the stock market community. He doubted, however, that the Board should try to change the character of the stock market under the guise of regulating credit. As he saw it, the crux of the problem was that people currently had an aversion to fixed-income securities and preferred to place their savings in common stocks, and he questioned how much could be done by regulation. Furthermore, he would be reluctant to make operations more difficult for those endeavoring to abide by the prescribed regulations because that might simply encourage the fringe elements that try to evade the regulations. Nothing in the history of the pertinent legislation indicated any intent to eliminate credit from the stock market entirely, he pointed out, and the amount of stock market credit was modest compared with that used in other segments of the economy. The volume had not increased substantially since the margin requirements were increased to 90 per cent and some ammunition should be held in reserve for use in the event of a further bulge in stock market activity.

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In a concluding comment, the Chairman indicated that he would favor a fixed pattern of withdrawal and substitution rules.

Governor Robertson agreed and said that he would have the same feeling with respect to margin requirements. He suggested, however, that any move in the direction of aligning the withdrawal and substitution rules with the margin requirements would be more feasible in a period of upswing than at another time.

Governor Szymczak referred to the difficulties involved in administering selective credit controls, especially where the applicable statutes were vague. As to moves that might be made currently, he suggested the possibility of working in the direction of tightening the margin regulations from the standpoint of their applicability to bank lenders and expressed the view that a moderate tightening of the withdrawal and substitution rules would permit the Board to gain some experience. The real problem, he said, was to try to work out something that would be both workable and understandable.

The discussion concluded with the request that Mr. Solomon prepare for the Board's consideration a memorandum describing steps that might be taken to carry into effect actions along the lines that had been suggested at this meeting.

All of the members of the staff except Messrs. Sherman and Solomon then withdrew from the meeting.

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Subpoena served on Agent's representative. Reference was made to a telephone call received today by Mr. Solomon from Mr. Victor Pregeant of the Federal Reserve Bank of Richmond regarding a subpoena duces tecum served upon Mr. T. W. Bagby, Federal Reserve Agent's Representative at the Charlotte Branch, to appear on February 16, 1959, in the United States District Court for the Western District of South Carolina, at Greenville, South Carolina, in the case of the United States vs. James Broadus Crawley to produce records relating to the issuance, shipment, and serial numbers of certain currency. It was understood that the information requested was contained in the records of the office of the Federal Reserve Agent and was desired by the Court in connection with a prosecution for robbery.

The Secretary was authorized to send a telegram to Mr. Decker, Federal Reserve Agent at the Richmond Bank, with a copy to President Leach, advising that the Board, pursuant to section 9 of its Rules of Organization, authorized Mr. Bagby to appear and produce the information requested and testify in connection therewith.

Study of Government securities market. Governor Mills said he had a matter he would like to bring up and that he hoped these comments would be relayed to Mr. Young. He referred to the outline that had been prepared by the Division of Research with respect to the proposed Treasury--Federal Reserve probe of the Government securities market. He suggested that thought be given over the week end to that outline

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and to the scope of the study that was indicated. The study program as presented would go beyond the original thinking of the Board, which was to be a crash program that would produce the facts on the speculative swings and the collapse in prices of Government securities in the spring and summer of 1958 and on the basis of these facts to provide a better understanding that would help answer questions that might be directed to the Chairman and to the System about the Government securities market. The study that the Research Division now had in mind would be a full-blown study of the character of the Ad Hoc Subcommittee study in 1952, which would go over a period of perhaps six months and would be divided into two sections: one factual and the other having to do with a research study that would delve into the structure of the Government securities market and come up with positive recommendations on improvements that might be made which the Board could recommend to the Congress.

Governor Mills said that the problems that occurred to him in such an extensive study were likewise ones that would have to do with each of these divisions of thinking. To get the facts, there was the sentiment in the Research Division that hearings would be held and that different financial groups would be invited to attend. It was also contemplated--and this he would think would be proper--that questionnaires would be transmitted to financial concerns and others to elicit individual expressions concerning the nature of the market. However, if hearings

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were held there might be a different climate than that which existed at the time of the Ad Hoc Subcommittee hearings which was a purely research study on the structure and operation of the Government securities market. A hearing held under the conditions that now exist would be almost equivalent to an adversary proceeding. (Both the Federal Reserve and the Treasury had indicated criticism and the Treasury was coupled with the proposed study.) This would be almost like a Grand Jury investigation, Governor Mills suggested, which would be the sort of thing he felt should be stayed away from. The approach should be on a friendly basis with consultations, if possible, in the offices of the firms interviewed in order to get what help could be gotten informally on the basis of the judgments and experiences of individuals closely identified with market practices.

Governor Mills said he also had the feeling that a full-blown research study that came up with recommendations for legislation might be pre-empting the authority of the Congress to hold hearings and to draw out the same kind of information that this study would be seeking.

As to the personnel problem, Governor Mills understood that in expanding the scope of the proposed study to the one now tentatively in mind there were three study groups contemplated, each having three members including a chairman. Each would develop a report in a particular field of inquiry. His feeling would be that if a research study of any

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extent were undertaken it might be preferable for one man to go into each of the questions and to prepare his paper which would then be submitted to others for critical examination. The other procedure would involve much greater use of time in making the study. Governor Mills concluded his comments by saying that these were his reactions to the outline which led him to feel that it would be desirable to give thought to the subject and to have a discussion of the matter promptly.

Chairman Martin suggested that the members of the Board think about this suggestion over the week end.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated February 12, 1959, from Mr. Young, Director, Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board the appointment of James W. Ford as Economist in that Division, with basic annual salary at the rate of \$12,075, effective the date he assumes his duties.


Secretary

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

Item No. 1
2/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 13, 1959.



Board of Directors,
Millburn-Short Hills Bank,
Millburn, New Jersey.

Gentlemen:

In accordance with a request submitted through the Federal Reserve Bank of New York, the Board of Governors extends to May 25, 1959, the time within which Millburn-Short Hills Bank, Millburn, New Jersey, may accomplish admission to membership in the Federal Reserve System, as outlined in the Board's letter of November 25, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
2/13/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 13, 1959.

Mr. E. R. Millard, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Millard:

This refers to the application for a prior tax certification filed by First Security Corporation ("First"), Salt Lake City, Utah. After further analysis of the application dated September 4, 1958, and the supplemental information furnished with your letter of December 9, 1958, there remain certain questions with respect to which additional clarification and information are desired as follows:

1. Western Investment Company. The stock of Western is to be owned by the proposed new holding company ("Corporation"). In the original application, First stated that after the distribution Western would be engaged solely in liquidating assets acquired from Corporation and from Corporation's subsidiaries. The Board's letter of October 9, 1958, included the following sentence:

"As certain assets of Western have been held for some years and it would appear from First's annual report for 1957 that the major portion, if not all, of Western's notes receivables probably were not acquired from First or its subsidiary banks, it is deemed necessary to have First substantiate its statement that Western 'will be engaged solely in the business of liquidating assets acquired from the New Holding Corporation, of which it will be a subsidiary and from the subsidiary banks of the New Holding Corporation.'"

First's letter of October 31, 1958, quoted only that portion of the sentence commencing with the words "it is deemed necessary," and went on to state: "We are of opinion that assets of Western Investment Company, which consist of property acquired by it from First Security Corporation or from subsidiary banks of First Security Corporation for the purpose of liquidation, may be retained by it for such purpose even after divestiture. All the assets of Western Investment Company which do not qualify under the exception of Section 4(c)(1) of the Act will be disposed of by Western Investment Company prior to divestiture."

Mr. E. R. Millard

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From First's annual reports to the Board, it is noted that some of the securities owned by Western at December 31, 1957, were apparently held at or prior to December 31, 1948, and others have been acquired since 1948. At the end of 1957, Western also owned memberships in several clubs and held notes, accounts, and real-estate contracts receivable, aggregating \$107,800.

Under the provisions of section 1101(c)(3), First can distribute to Corporation property which, under section 1101(b)(1) it "could distribute directly to its shareholders...., and other property (except prohibited property)." The property which could be so distributed under section 1101(b)(1) is stock of controlled banks or bank holding companies. Therefore, in order for the Board to certify that the exchange and distribution of Western's shares is "appropriate to effectuate the policies" of the Act, it is necessary to ascertain whether the stock of Western falls within the category of "other property (except prohibited property)."

In other words, in order for the Board to certify that the distribution of Western's shares is "appropriate," the Board must be satisfied that Western's shares do not constitute prohibited property. Under the provisions of section 4(c)(1), this means that Western must be engaged solely in liquidating assets acquired from First or Corporation and the subsidiary banks. In this connection, it is deemed advisable that First be requested to furnish the following information:

1. As to the assets (other than cash) of Western as of December 31, 1958:
 - (a) For each security, show the information required by Schedule A of Form FR-Y6.
 - (b) For each note, account, and contract receivable, show the information required by Schedule B of Form FR-Y6.
 - (c) Furnish a description of each other asset.
 - (d) For each asset under (a), (b), and (c) immediately above, show:
 - (1) The date acquired;
 - (2) From whom acquired;
 - (3) Whether such asset will be retained by Western

Mr. E. R. Millard

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or disposed of and, if the asset is to be disposed of, will such asset be held by Corporation or First Security Company; and

(4) For each asset to be retained by Western which has been held more than two years, a statement as to the reasons for not having liquidated such asset.

2. A statement as to whether Western will engage in any lending operations whatsoever.

2. First Security Company. From the December 31, 1957, annual report of First, it is noted that First Security Company had notes and accounts receivable aggregating \$101,000. Approximately \$22,000 were from stockholders, directors, or officers, and \$79,000 was a receivable from others. From the September 30, 1956, report of examination of First, it appears that some of these loans were made in connection with the acquisition of qualifying shares by directors of First's subsidiary banks. The making of such loans would appear to be in the category of performing services for subsidiary banks. However, it is questionable whether the other loans are in that category, and therefore, First should be asked whether any loans other than those based on qualifying shares will remain as assets of First Security Company at the time that company is acquired by Corporation. If so, for each such loan, furnish the same information as required for Western in 1(b) and 1(d) above.

3. In order to eliminate any possible question as to the status of the shares of Idaho Investment Company in connection with the prohibitions of section 4, First should furnish definite information as to whether Idaho Investment Company will be liquidated prior to the distribution of shares of First Security Bank, Rock Springs, to Corporation.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
2/13/59

OFFICE OF THE CHAIRMAN

February 13, 1959.

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

A letter of January 15, 1959, requested a report on S. 131, a bill to amend section 2(b) of the Bank Holding Company Act of 1956.

Section 2(b) contains an exemption from the Act for "any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation." S. 131 would amend section 2(b) so as to also exempt from the Act any corporation all of whose stock is owned by an organization exempt under the above-quoted provision of the Act and all of whose net income is turned over to such an exempt organization.

The Board's views concerning the exemption were stated in Recommendation 9 in the Board's report of May 7, 1958, to Congress pursuant to section 5 of the Bank Holding Company Act. For convenient reference, there is enclosed a copy of this recommendation, which suggested the complete elimination of the exemption. If Recommendation 9 were not adopted, the Board believes that in the alternative certain modifications of the exemption would be desirable, including its possible broadening along the lines contemplated by S. 131.

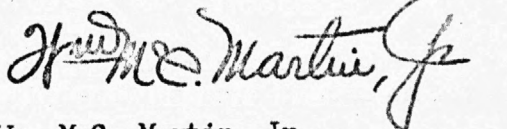
However, instead of piecemeal amendments to the Act such as proposed by S. 131, the Board believes that it would be preferable for consideration to be given the Act as a whole on the basis of the Board's report to Congress of May 7, 1958, to which was appended as Exhibit A a draft bill incorporating the Board's recommendations for changes in the Act. As indicated

The Honorable A. Willis Robertson

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in my letter of January 19, 1959, to the Committee the Board hopes that its report and recommendations will be considered by your Committee during this session of Congress.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." The signature is written in dark ink and is positioned above the typed name.

Wm. McC. Martin, Jr.

Enclosure