Minutes for March 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 CW
Gov. Szymczak	x MAS	
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x CCB	
Gov. Shepardson	x [illegible]	

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

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Leavitt, Supervisory Review Examiner, Division of Examinations

Discount rates. Unanimous approval was given to telegrams to the Federal Reserve Banks of New York and Dallas approving the establishment without change by those Banks on March 12, 1959, of the rates on discounts and advances in their existing schedules.

Hillsboro Enterprises, Inc. (Item No. 1). Pursuant to recommendations contained in memoranda from the Division of Examinations and the Legal Division dated February 10, 1959, and March 11, 1959, respectively, which had been distributed prior to this meeting, the Board approved unanimously the issuance of a final tax certification with respect to Hillsboro Enterprises, Inc., Nashville, Tennessee, with the understanding that duplicate originals would be sent (1) to the Commissioner of Internal Revenue and (2) to the applicant through the

1/ Attended morning session only.

Federal Reserve Bank of Atlanta. A copy of the certification is attached as Item No. 1.

Mr. Hexter then withdrew from the meeting.

Application of Bishop National Bank. Governor Robertson reported that in a telephone conversation yesterday President Mangels of the Federal Reserve Bank of San Francisco stated that the Reserve Bank's Board of Directors had approved an application by the Bishop National Bank of Hawaii, Honolulu, Hawaii, for membership in the Federal Reserve System and inquired whether the Board of Governors would be agreeable to expediting action on the application, since the subject bank was anxious to effect membership. Presumably, Governor Robertson said, Bishop National desired early admission to System membership principally as a matter of public relations in view of the status of the Hawaiian Statehood bill, which had now been passed by the Senate and the House of Representatives and sent to the President for signature. It was noted that if this bill were signed by the President and Hawaii thereafter became a State of the Union, Bishop National could become a member of the Federal Reserve System merely by subscribing to Federal Reserve Bank stock.

Mr. Nelson then read a telegram sent by President Mangels following his conversation with Governor Robertson which contained information pertinent to consideration of the membership application. Mr. Nelson also summarized information obtained from the most recent report of

examination of Bishop National by the Office of the Comptroller of the Currency, following which Mr. Hackley commented that the Legal Division had not yet had an opportunity to determine exactly what legal problems might exist or how any such problems might be resolved. On the basis of the telegram from Mr. Mangels, no serious problems of a legal nature appeared to be presented, but Mr. Hackley said that he could not be entirely certain without making the customary review of the application.

After consideration of the matter, it was agreed to defer action until the application papers had been received from the Federal Reserve Bank of San Francisco and processed by the Board's staff, with the understanding that the staff would make every effort to expedite the presentation of the matter to the Board. The staff was requested to get in touch with President Mangels with a view to arranging for early transmittal of the application papers by the Reserve Bank to the Board's offices.

Mr. Leavitt then withdrew from the meeting.

Testimony on bank merger legislation. At the meeting on Friday, March 6, it was agreed that Governor Robertson would appear on behalf of the Board before the Senate Banking and Currency Committee on March 18, 1959, in connection with hearings relating to pending bank merger legislation. Accordingly, there had been distributed to the Board a draft of statement proposed to be made by Governor Robertson on that occasion. The statement, which was in line with the position expressed

by the Board with regard to proposed bank merger legislation during the past two years, endorsed the approach followed by bill S. 1062, on which the Board recently reported favorably by letter to the Banking and Currency Committee.

In discussion, agreement was reached on several relatively minor changes in the statement not affecting the substance of the testimony. The sole reservation going to the substance of the matter was expressed by Governor Shepardson, who raised for consideration the question whether the Board wished to stand on the position that the Federal bank supervisory agency authorized to pass upon a particular merger should be required to seek the views of the other two Federal banking agencies only with respect to the question of competitive effect. This appeared to him somewhat inconsistent with the position that the agency having jurisdiction over the merger would be required to weigh all of the other factors affecting the public interest as well as the competitive effect of the proposed merger. All of the agencies, he pointed out, might be in agreement that a proposed merger would involve some weakening of the competitive situation, and the views received by the agency having jurisdiction might not represent any significant contribution unless the competitive factor had been weighed in relation to other aspects of the matter in formulating such views.

Comments made on this point by Governor Robertson and Mr. Hackley were in terms that the approach embodied in S. 1062 was intended to avoid a duplication of effort by the three Federal banking agencies in appraising the factors involved in a proposed merger other than the competitive factor, particularly when the two agencies not having jurisdiction over the merger might lack close knowledge of the banking institutions involved. At the same time, the approach was intended to foster uniformity of supervisory policy with respect to the competitive factor. If an agency having jurisdiction should receive negative reports from the other agencies concerning that factor--and also a negative report from the Department of Justice in a case where the views of that Department were requested--it would be expected to give those views serious consideration when studying all of the aspects of the proposed merger in order to determine whether other factors were sufficiently favorable to overbalance the negative findings from the standpoint of competitive effects.

At the conclusion of the discussion, it was the majority view that the position proposed to be taken in the testimony should not be changed.

Governor Robertson then presented for consideration the type of response that might be most appropriate if certain inquiries should be made at the hearing. The first of these questions related to a possible suggestion that Federal jurisdiction over all proposed bank

mergers be lodged with the Federal Deposit Insurance Corporation, the second concerned a possible suggestion that jurisdiction be vested in the Board of Governors in all cases where the capital structure of the merged bank would exceed a stated amount, and the third related to a possible suggestion that bank merger legislation contain a provision whereby the Attorney General must be notified by the respective supervisory agencies regarding the pendency of any bank merger application. Discussion of the first two questions reflected an attitude of doubt on the part of the members of the Board as to whether legislative provisions along such lines would be feasible or appropriate; it was understood that if such questions were raised Governor Robertson would make such response as he deemed most appropriate, having in mind the views expressed at this meeting. As to the third question, there was agreement that it would be difficult to interpose objection to a suggestion that the bank supervisory agencies be required to notify the Attorney General of all pending bank merger applications as a matter of information.

It was then agreed that the draft of statement to be made before the Senate Banking and Currency Committee would be revised to the extent decided upon at this meeting and presented in a final form satisfactory to Governor Robertson.

At this point Mr. Molony, Special Assistant to the Board, entered the room.

Mercantile Trust Company of St. Louis (Item No. 2). By letter dated March 6, 1959, the Board responded negatively to a request from Mr. Raymond P. Brandt of the St. Louis Post-Dispatch for specific answers to certain questions regarding the Mercantile Trust Company of St. Louis, Missouri, and its predecessor institution, the Mercantile-Commerce Bank & Trust Company. On March 9, 1959, the Board authorized President Johns of the Federal Reserve Bank of St. Louis to comply with a subpoena to produce copies of certain letters regarding this matter that were in the Reserve Bank's files. In a letter dated March 10, 1959, Mr. Brandt renewed his inquiry, although his questions were stated in somewhat different form and did not inquire as to what action was taken by the Board regarding reacquisition of the stock of Mercantile-Commerce National Bank by Mercantile Trust Company. Since the letters that the Board had authorized President Johns to produce would for the most part provide answers to Mr. Brandt's questions and since it was assumed that Mr. Johns would be required by the court to produce the documents in connection with a pending suit against the Trust Company, there had been submitted for the Board's consideration, with a memorandum from Mr. Hackley dated March 12, 1959, a draft of reply to Mr. Brandt answering his factual questions briefly, with such supplementary explanation as necessary to avoid confusion.

Mr. Hackley said that President Johns expected to be called to the witness stand this morning, but that he (Mr. Hackley) had not yet been advised as to the results. However, Mr. Johns had been informed that counsel for Mercantile Trust Company had received a request from counsel for the plaintiff to produce three of the five letters in question, a procedure provided for under the Missouri statutes. In response to this request, it was understood that the Trust Company's President proposed to state only that he regarded the letters as "unpublished information" within the meaning of the Board's Rules of Organization; he had not yet indicated whether he would comply with the request for them and he had not yet requested any authorization from the Board to produce the documents. In this connection, it appeared from a newspaper clipping in the Post-Dispatch which was forwarded to the Board's offices by Mr. Johns that counsel for Mercantile Trust Company had told the court that Mercantile informed the Board in 1951 about the proposed reacquisition of stock of the Mercantile-Commerce National Bank and that no objection was indicated. If asked concerning this point, President Johns proposed simply to say that he had nothing in his files regarding it. The fact was, Mr. Hackley said, that the Board considered the matter at the time and decided that, although there may have been a technical violation of law in connection with the reacquisition of the stock, it was temporary because the stock was transferred immediately

to other trustees. The Board therefore decided to do nothing about the matter, but no letter to such effect was written.

After the view was expressed by Governor Robertson that the circumstances described by Mr. Hackley should be referred to in the proposed letter to Mr. Brandt in order to dispel confusion, question was raised whether the Board had an obligation to bring a technical violation of such kind to the attention of the Department of Justice. Mr. Hackley replied that the banking statutes are not criminal statutes and that in the event of a violation of them it is within the discretion of the Board to decide whether to take any action authorized under the law. In this particular instance, the Board gave consideration to the transaction but decided not to take any action. Also, an opinion of the Board that there had been a technical violation of law would not be final, for that point would remain for the courts to decide.

In the light of this discussion, it was suggested that the proposed reply to Mr. Brandt make clear, particularly in view of the current litigation, that the question as to whether the reacquisition of the stock constituted a violation of law was a question on which only the courts could express a final opinion.

Several suggestions then were made for changes in the content and arrangement of the letter, including a suggestion by Governor Szymczak that the letter reaffirm the principle, challenged by Mr. Brandt, concerning nondisclosure of unpublished information in the bank supervisory

area, thus indicating that the information now being supplied was being furnished only in the light of the subpoena served upon President Johns.

Governor Mills stated that he would have to dissent from a decision to send such a letter to Mr. Brandt because he viewed the furnishing of the information as involving the fundamental question of a breach of confidentiality. According to available advice, the President of Mercantile Trust Company appeared to be standing on the position of nondisclosure of unpublished information and it would be very disconcerting to him (Governor Mills) if, in the face of that, the Board proceeded to disclose the requested information to a newspaper representative. Furthermore, the information proposed to be furnished would go beyond the facts that would be brought out in court if the letters in question were produced by Mr. Johns, and the publication of the information proposed to be sent to Mr. Brandt could serve to benefit one or the other of the parties to the litigation now in process. In its March 6 letter to Mr. Brandt, Governor Mills noted, the Board had expressed concern about furnishing such information while the case was in the courts. For these reasons, he would stand on the Board's original position and decline to provide the information sought by the newspaper representative.

After further discussion, it was agreed, Governor Mills dissenting, to send to Mr. Brandt a letter in the form decided upon at this meeting, subject to advice being received that President Johns had been required

to produce in court the letters referred to in the Board's authorization of March 9, 1959, and that they had been made part of the record.

Secretary's Note: Advice having been received later that President Johns had been required to produce the letters, for the public record, a reply was sent to Mr. Brandt on March 16, 1959, in the form attached as Item No. 2.

The meeting then recessed and reconvened at 3:00 p.m., with Governors Balderston, Mills, Robertson, and Shepardson present along with Messrs. Sherman, Kenyon, Hackley, and Molony and the following additional members of the staff:

Mr. Marget, Director, Division of International Finance
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Sammons, Associate Adviser, Division of International Finance
Mr. Solomon, Assistant General Counsel
Mr. Benner, Assistant Director, Division of Examinations
Miss Hart, Assistant Counsel
Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics

Gold Loan to Haiti (Item No. 3). Mr. Marget reported receipt today of a telegram from the Federal Reserve Bank of New York advising that the National Bank of Haiti had requested a further renewal for 30 days of the $400,000 loan on gold falling due on March 16, 1959, with an option to settle before April 15. Such a renewal, if requested by the National Bank of Haiti, deemed advisable by the officers of the New York Reserve Bank, and approved by the Board of Governors, had previously been authorized by the directors of the Federal Reserve Bank of New York.

In view of a comment in the request from the National Bank of Haiti that arrangements were now being completed for a drawing under a recent agreement with the International Cooperation Administration, Mr. Marget reported that it had been ascertained from that agency that technically the funds received from it could not be used by the Haitians to repay a gold loan. However, the Haitians, being in receipt of such funds, could use other resources available to them. Mr. Marget expressed the view that it would be difficult to refuse the requested 30-day renewal and that the more important question was whether the terms of renewal should preclude any further extension of the loan.

After discussion of the history of the loan and of available alternatives, it was agreed unanimously to approve a further renewal of the gold loan for a period of 30 days on the same terms and conditions as the maturing loan except that the renewal would bear interest at the current discount rate of the Federal Reserve Bank of New York. It was further agreed that the telegram to the New York Bank advising of this action should indicate that the Board would expect the loan to be paid in full on or before the expiration of the 30-day renewal. A copy of the telegram sent to the New York Reserve Bank pursuant to this action is attached as Item No. 3.

Messrs. Marget and Sammons then withdrew from the meeting.

Proposed amendments to Regulations T and U. Pursuant to the understanding at yesterday's meeting, there had been sent to the members of the Board copies of certain proposed amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, in form suitable for transmittal to the Federal Register. The proposed amendments were accompanied by brief descriptions, and it was indicated that all comments should be submitted in writing to the Board, preferably through the Federal Reserve Bank of the district, to be received not later than April 6, 1959. Also submitted was a proposed press statement which would be released at 4:00 p.m. EST today and to which would be attached the material being sent to the Federal Register for publication and comments.

At the request of the Board, Mr. Solomon described two minor changes that had been made in the interest of clarification in drafting the material for the Federal Register, and these changes were accepted.

Accordingly, it was agreed unanimously that the press statement would be released at 4:00 p.m.; the proposed amendments and accompanying material would be filed with the Federal Register today; letters enclosing the proposed amendments would be sent to all registered securities exchanges, to various other interested parties within and outside the Government, and to the Federal Reserve Banks; and a

telegram would be sent to the Reserve Bank Presidents this afternoon giving preliminary advice of the notice of proposed rule making being filed with the Federal Register. In addition, it was understood that after the news of the proposed amendments had appeared on the ticker, Governor Balderston would call President Funston of the New York Stock Exchange as a matter of courtesy and inform him regarding the issuance of the press statement.

Instructions for examiners regarding Regulation U. Mr. Benner commented that some time ago Mr. Solomon prepared a draft of instructions to bank examiners regarding Regulation U, the Federal Reserve Banks were sent single copies, and the Banks indicated that such a booklet of instructions would be valuable for their examiners. Explanatory material regarding Regulation U had also been prepared by Mr. Solomon for the information of commercial banks in conducting operations pursuant to the Regulation.

Following a brief discussion, it was agreed unanimously that after the Board had made a decision concerning the proposed amendments to Regulation U now being filed with the Federal Register, any revisions that might be necessary would be made to the instructions drafted for the use of bank examiners and copies would then be sent to the Federal Reserve Banks and to the Federal bank supervisory agencies. On the other hand, it was agreed that no manual regarding Regulation U should

be distributed to commercial banks until the material had been reviewed and a decision reached by the Board at an appropriate time.

Discount rates. The Secretary reported receipt of advice that the directors of the Federal Reserve Banks of Atlanta and Minneapolis, at meetings today, had established, subject to the approval of the Board of Governors, a rate of 3 per cent (rather than 2-1/2 per cent) on discounts and advances under sections 13 and 13a of the Federal Reserve Act, along with appropriate subsidiary rates. He stated that in accordance with the authority given by the Board at the meeting on March 9, 1959, the Atlanta and Minneapolis Banks were being advised of approval of such rates effective March 16, 1959. A press statement in the usual form was to be released today at 4:00 p.m. EST, all Federal Reserve Banks and branches were being notified by telegram, and a notice would be published in the Federal Register.

The meeting then adjourned.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
3/13/59

FINAL CERTIFICATION

Pursuant to section 1101(e)(2) of the Internal Revenue Code of 1954, the Board of Governors of the Federal Reserve System hereby certifies, to the best of its knowledge and belief, that Hillsboro Enterprises, Inc., Nashville, Tennessee, which formerly was a bank holding company as defined in section 2(a) of the Bank Holding Company Act of 1956, has ceased to be a bank holding company before the expiration of the period specified in subparagraph (B) of section 1101(e)(2) of the Internal Revenue Code of 1954.

Executed in Washington, D. C., pursuant to direction of the Board of Governors of the Federal Reserve System.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Date: March 13, 1959.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
3/13/59

OFFICE OF THE VICE CHAIRMAN

March 16, 1959.

Mr. Raymond P. Brandt,
Chief, Washington Bureau,
St. Louis Post-Dispatch,
1028 Connecticut Avenue, N. W.,
Washington 6, D. C.

Dear Mr. Brandt:

This is in response to your letter of March 10, 1959, referring further to the subject of your inquiry of February 28, and Chairman Martin's reply of March 6, 1959.

The Board appreciates the sincerity of your interest in this matter, although, as indicated in Chairman Martin's letter of March 6, the Board believes that the general principle of nondisclosure of unpublished information regarding particular banks is supported by considerations in the public interest.

Since the date of your earlier letter of February 28, copies of certain letters among the records of the Federal Reserve Bank of St. Louis, dealing with the subject of your inquiry, have beenrequired by the court to be made a part of the record in the litigation now pending against the Mercantile Trust Company of St. Louis. In these circumstances, the Board feels that it may appropriately attempt to answer the factual questions set forth in your letter of March 10.

The danger of misunderstanding incident to the disclosure even of information of this kind is exemplified by the nature of your questions. Each of the three questions stated could be answered by a categorical "yes" or "no", but such answers could lead to serious misunderstandings and confusion.

Your first question is as follows:

> "Is there or is there not a law or a regulation making it necessary for a bank under Federal Reserve supervision to obtain approval from the Board before reacquiring stock in another bank when the stock has been placed under a trusteeship arrangement?"

The answer to this question is "no". However, without further explanation that answer would be incomplete. The Banking Act of 1933 prohibited any member bank of the Federal Reserve System from purchasing for its own account the stock of any other corporations, with certain minor exceptions not applicable here. The Board has no authority to approve a purchase of stock that would violate this provision.

Your second question is phrased as follows:

> "Did or did not Eugene Black, then a member of the Federal Reserve Board, notify Mercantile Trust Co. it would be required to obtain approval from the Board in order to reacquire stock of the Mercantile Commerce National Bank in St. Louis?"

Again the answer is "no", but again such a categorical answer requires explanation. When the Trust Company was admitted to membership in the Federal Reserve System in 1929, it was subject to a standard condition of membership prohibiting it from acquiring stock of any other bank without the Board's approval. However, that condition was rendered academic by the Banking Act of 1933, referred to above, which prohibited the acquisition of corporate stocks by member banks and which therefore made it impossible for the Board to approve such an acquisition. In 1935, the Board advised the Trust Company, in a letter over the signature of Eugene Black, that, because of the change in the law, the Board was not in a position to give its approval to reacquisition of the stock of the National Bank. It will be seen, therefore, that Mr. Black did not notify the Trust Company that it would be required to obtain the Board's approval to reacquire the stock of the National Bank, but actually advised the Trust Company as above indicated.

Your final question is as follows:

> "Did or did not Mercantile Trust seek the Federal Reserve Board's approval for reacquisition of the stock of Mercantile Commerce National Bank?"

The answer to this question is "yes". In 1947, the Trust Company requested the Board's permission to reacquire the stock in question. However, the Board again advised the Trust Company that, in view of the provisions of the Banking Act of 1933 preventing the purchase of stock by a member bank, the Board was not in a position to grant the request.

For your information, it may be mentioned that certain of the facts in this case were reported in a published opinion of the

Supreme Court of Missouri in 1957, in the case of Moser v. Keller, 303 S.W.(2d) 135, 136 (Missouri, 1957). It was there indicated, for example, that in June 1934, the Trust Company transferred the stock of the National Bank to trustees with an option to repurchase; and that in June 1951, the Trust Company exercised that option.

In connection with this matter, it should be pointed out again that, as between the litigants in this case, the question whether or not the reacquisition of the stock of the National Bank constituted a violation of law is one as to which only the court may express an authoritative opinion. As previously indicated, the Banking Act of 1933 applies to the "purchase" of stock by a member bank "for its own account". Consequently, the legal question would depend upon whether or not the particular circumstances under which the Trust Company reacquired the stock and immediately transferred it to other persons constituted a purchase of stock by the Trust Company for its own account.

I trust that the above information adequately answers the questions stated in your letter and that, at the same time, it may serve to dispel confusion regarding this matter.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
3/13/59

March 13, 1959

EXTER- NEW YORK

Your wire March 13. Board approves further renewal for thirty days of loan on gold by your Bank to Banque Nationale de la Republique d'Haiti of $400,000 due March 16 on same terms and conditions as maturing loan except that it shall bear interest at current discount rate of 3 per cent per annum. Board would expect loan to be paid in full on or before maturity. It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN