

Minutes for April 9, 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>WM</u>
Gov. Szymczak	_____	x <u>MS</u>
Gov. Mills	<del>_____</del>	_____
Gov. Robertson	x _____	_____
Gov. Balderston	x <u>CCB</u>	_____
Gov. Shepardson	x <u>LS</u>	_____
Gov. King	x <u>PK</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, April 9, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Thomas, Economic Adviser to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. O'Connell, Assistant General Counsel  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mr. Hill, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of San Francisco on April 8, 1959, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Topics for joint meeting of Board and Council (Item No. 1).

There had been distributed to the Board a draft of letter to the Federal Advisory Council suggesting four topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on April 27, 1959, and for discussion at the joint meeting of the Council and the Board on April 28.

Governor Mills suggested the inclusion of a fifth item requesting the views of the Council regarding bank merger legislation now under consideration by the Congress.

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1/ Withdrew from meeting at point indicated in minutes.

4/9/59

-2-

In connection with a question as to whether the proposed amendments to Regulations T and U should be included on the agenda, Governor Robertson reported to the Board his telephone conversation with Mr. Livingston, President of the Federal Advisory Council, in which he transmitted the Board's decision of April 6, 1959, not to delay consideration of the proposed amendments, indicated to Mr. Livingston the several considerations underlying the Board's thinking, and assured Mr. Livingston that the Board would be glad to receive any comments in writing from the Council or from its members individually. Also, if amendments to the regulations had not been adopted by April 28, the Board would be glad to consider the Council's suggestions at the joint meeting. If the amendments had been promulgated by that date, the Board would still be pleased to have the Council's comments as a basis for considering possible amendments in the future. Mr. Livingston was further advised that the Board would be willing to hear the Council as a whole, or the executive committee or a special committee thereof, not later than about April 14; it assumed that Council members who so desired would submit their written comments promptly if they had not already done so.

Governor Robertson said he gathered from the conversation that there would be no request for any oral presentation by the Council or a committee of members before the joint meeting on April 28.

After further discussion, it was the consensus that the Board should not take the initiative in suggesting the proposed amendments to

4/9/59

-3-

Regulations T and U for inclusion on the Council agenda. In this connection, the view was expressed that it would not be advisable for the Board to act on the proposed amendments during the week just preceding the meeting of the Council.

The proposed letter to the Secretary of the Federal Advisory Council, amended to include a request for the views of the Council on pending bank merger legislation, then was approved unanimously. A copy is attached as Item No. 1.

Mr. Thomas then withdrew and Mr. Molony, Special Assistant to the Board, entered the room.

Items suggested for discussion with Presidents (Item No. 2).

In connection with a discussion of the report of examination of one of the Federal Reserve Banks at the meeting on January 23, 1959, it was agreed that the practice whereby one or more of the senior officers of some of the Reserve Banks attend meetings of the audit committee of the Board of Directors would be taken up at the joint meeting of the Board and the Reserve Bank Presidents on March 24. At the joint meeting, the Presidents were advised that a letter would be forthcoming requesting consideration of the matter. Accordingly, a draft of letter to Chairman Erickson of the Conference of Presidents had now been distributed to the Board.

During discussion of the draft, it was suggested that the scope of the letter be broadened to include a request for consideration of the



4/9/59

-4-

somewhat related question of the responsibility for salary administration as it affects those engaged in the audit function.

A letter to Chairman Erickson reflecting this suggestion and certain minor editorial changes then was approved unanimously. A copy of the letter sent pursuant to this action is attached as Item No. 2.

Pursuant to the understanding at the meeting on January 22, 1959, the question of furnishing consolidated Reserve Bank budget information to the respective Banks was mentioned at the joint meeting of the Board and Presidents on March 24, at which time it was indicated that a letter on the subject might be forthcoming. There had now been distributed to the Board a draft of letter to Chairman Erickson requesting the views of the Presidents and explaining that the question had been prompted by a recent inquiry from a staff member of one of the Banks for certain comparative budget information for use in connection with a study that had been assigned to him. The letter also noted that such data were distributed annually for several years prior to 1952.

Consideration of the draft letter resulted in a question being raised as to the advisability of opening the matter for discussion, and it was then suggested that the matter be disposed of by informally advising the Bank where the request originated that the practice in recent years had not been to make such information available. It was pointed out that if the President of the Bank concerned should wish to pursue the matter, he could raise the question through the Presidents' Conference.

4/9/59

-5-

At the conclusion of the discussion, it was agreed that the matter should be disposed of in the manner that had been suggested.

At this point Governor Mills raised a question with regard to the follow-up of subjects discussed by the Board with the Presidents' Conference at recent joint meetings, and the Secretary stated that a review would be made of the disposition of such items.

Mr. Smith then withdrew from the meeting.

Continental Bank and Trust Company. There had been distributed to the Board a memorandum from Mr. O'Connell dated April 8, 1959, with regard to a request from Mr. O'Kane, Vice President and General Counsel of the Federal Reserve Bank of San Francisco, for permission to use certain unpublished information in a counter affidavit proposed to be filed in connection with a suit brought against the Reserve Bank by The Continental Bank and Trust Company, Salt Lake City, Utah. Mr. O'Kane had advised by telephone that an affidavit executed by the member bank's President, Mr. Cosgriff, and attached to a cross motion for summary judgment, asserted that actions taken by Messrs. Millard and Ahlf of the Bank's staff in reporting to the Board the plaintiff's acquisition and retention of the stock of Paramount Life Insurance Company of Texas and the subsequent request by the Reserve Bank that plaintiff divest itself of those shares constituted a continuance of the general harassment initiated against the plaintiff in the Board's capital adequacy proceeding. It was Mr. O'Kane's desire to file a

4/9/59

-6-

strong counter affidavit, and any such affidavit must be filed not later than the close of business today. Mr. O'Kane requested permission to include an excerpt from the Board's letter of August 11, 1952, to the Presidents of all Federal Reserve Banks (S-1465) in which the Banks were requested to furnish to the Board Form F. R. 212, Memorandum Regarding Report of Examination, and copies of all correspondence with member banks pertaining to requests for corrective action. It was also proposed to attach a blank copy of Form F. R. 212.

Mr. O'Connell, in reviewing Mr. O'Kane's request, noted that Form F.R. 212 was a standard form submitted to the Board with the examination report and used to summarize the condition of the bank or state the corrective measures found necessary, and that it did not form a part of the examination report. The portion of S-1465 for which permission to quote was requested would contradict the contention that the Bank was not authorized to act as it did. The balance of the letter was devoted to other unrelated matters which it was felt should not be published; accordingly, if the court requested disclosure of the entire letter, Mr. O'Kane had planned to abandon it and ask the Board to furnish an affidavit certifying as to the San Francisco Bank's authority. However, due to the shortness of time, it would not be possible to take the alternative course, and it was doubtful that a telegraphic affidavit would suffice.

4/9/59

-7-

Mr. O'Connell recommended that Mr. O'Kane be authorized to use Form F.R. 212 in blank and the requested excerpt from the S-letter, with the understanding that if he were required to produce the entire letter he would withdraw the affidavit and not allow the letter to be used. He also recommended that authority be given to Mr. O'Kane by telephone and confirmed by letter.

Mr. Hackley expressed the opinion that this was a matter of weighing the public interest and the advantages and disadvantages in making such disclosures. Inasmuch as the Board was empowered to release unpublished material and the subject material did not disclose details of the business of a bank or reflect on any bank and was needed to defend properly a suit against the Reserve Bank, to support the Reserve Bank's position, and to refute the contention of the member bank, release of the material seemed to him proper and justified.

Governor Mills expressed the opinion that this problem involved the whole principle of protecting unpublished information and that there was an obligation not to attempt to distinguish between types of information in relation to particular cases. He felt it was implicit in the conduct of the operations of a regulatory body that there should be communication between the governing body and its agents in the field for the purpose of arriving at proper judgments, and that the nature of such communication as it bore upon any particular case was confidential. The mere fact that outsiders might have knowledge of the existence of



4/9/59

-8-

such lines of communication seemed to him not to be a reason in itself for authorizing disclosure of information. Mr. Cosgriff, he noted, had already charged the Board with having made disclosures in its own interest, it was quite possible that Mr. Cosgriff was probing for another opportunity, and such an interpretation might be placed on this disclosure. Member banks, Governor Mills pointed out, count on the Board's discretion and respect for the confidentiality of material received in connection with its supervisory duties, and the banks could reach a conclusion that the Board was not averse to disclosing unpublished information to justify its actions.

Mr. Hackley agreed that every instance of this kind should be carefully reviewed and added that this was the purpose of providing that all unpublished information shall be sacrosanct unless the Board specifically authorizes its release. In determining whether to give permission, it seemed to him appropriate to consider the nature of the information, which varies considerably. The current proposal would not release any information concerning Continental or any other particular bank.

Mr. O'Connell added that in this case the material for which release was requested constituted the basic authority that the Reserve Bank was asserting it had, which authority had been challenged.

In further discussion, Governor King stated that he did not wish to participate in the decision on this particular question, while other

4/9/59

-9-

members of the Board expressed themselves in terms that the use of the unpublished information in this instance in the manner proposed by Mr. O'Kane would be justified. They noted that no information relating to any particular bank was involved and suggested that a distinction might be drawn between information of this kind and that generally thought of when use was made of the word confidential. In this instance the Federal Reserve Bank would simply be disclosing the basis for actions that had been challenged by the plaintiff.

At the conclusion of the discussion, Mr. O'Connell was authorized to advise Mr. O'Kane by telephone that the Board had authorized use of the unpublished material in question in the manner he had proposed. Governor Mills voted "no" for the reasons he had stated, and Governor King did not vote.

Governor Mills then withdrew from the meeting.

Miscellaneous items. Mr. Hackley reported that the Senate Banking and Currency Committee was meeting this morning in executive session to discuss proposed legislation on reserve requirements and bank mergers. He said that upon invitation he attended yesterday a staff level meeting relating to a draft of possible amendment to the bank merger bill that Committee Chairman Robertson wished to have available if needed. He had expressed certain objections with respect to the draft amendment but did not know what the outcome might be.

4/9/59

-10-

Governor Balderston reported that Chairman Erickson had suggested a meeting of the Board and the Presidents' Conference on April 14, 1959, for the purpose of considering further the question of the retail trade statistics program, including the possibility of contracting with the Bureau of the Census for the collection of data.

Governor Shepardson reported that a meeting of the System staff committee dealing with agricultural matters was scheduled for April 23-24, 1959, and that representatives of other agencies of the Government were to attend parts of the program. A luncheon was to be held on April 23 with Under Secretary of Agriculture Morse as speaker, and members of the Board would be welcome at the luncheon or other parts of the meeting.

Governor Balderston reported that certain members of the Board's staff had prepared a document for the use of the Treasury in connection with confidential studies by that Department relating to the savings bond program and that the few extra copies available would be passed among those members of the Board who desired to read the paper.


The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board, effective immediately, a memorandum dated April 7, 1959, from Mr. Johnson, Director, Division of Personnel Administration, recommending that the Board's Leave Regulations be revised to permit the

4/9/59

-11-

Division of Personnel Administration to approve a delegation by the Head or Assistant Head of a Division of responsibility for approving applications for annual leave in excess of five days and sick leave in excess of three days.



Secretary



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

Item No. 1  
4/9/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 9, 1959.



Mr. Herbert V. Prochnow,  
Secretary,  
Federal Advisory Council,  
38 S. Dearborn Street,  
Chicago, Illinois.

Dear Mr. Prochnow:

The Board suggests the following topics for inclusion on the agenda for the meeting of the Federal Advisory Council to be held on April 27, 1959, and for discussion at the joint meeting of the Council and the Board on April 28:

1. The Board would appreciate receiving the views of the Council regarding the current business situation and the prospects for business activity during approximately the next six months, along with reports from the individual members of the Council regarding current or prospective developments in their districts having special significance to the total picture for the country as a whole.
2. How strong are the current demands for credit and what is the prospective demand for bank loans during the remainder of this year?
3. What are the views of the Council regarding appropriate credit policy between now and the next meeting of the Council?
4. The Board would be glad to receive any comments or suggestions that the Council may have concerning the proposals contained in the attached memorandum regarding improvements of available statistical data through the weekly reporting member bank and call report series. (The Federal Deposit Insurance Corporation has indicated that it is agreeable to the proposals and the Office of the Comptroller of the Currency is now studying the matter. It is hoped that the time schedule set forth in the memorandum may be met.)
5. The Board would appreciate receiving the views of the Council regarding bank merger legislation now under consideration by the Congress.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
4/9/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 10, 1959

Mr. J. A. Erickson, Chairman,  
Conference of Presidents of the  
Federal Reserve Banks,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Erickson:

As mentioned at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on March 24, 1959, the Board recently had occasion to give consideration to the practice followed at some of the Reserve Banks whereby one or more of the senior officers of the Bank attend meetings of the audit committee of the board of directors. A somewhat related question pertains to the responsibility for salary administration as it affects those engaged in the audit function.

Inasmuch as these questions touch upon the important matter of preserving a clear delineation in the relationships between the general auditor, the board of directors, and the executive management of the Reserve Bank, it will be appreciated if they could be discussed at the June meeting of the Presidents' Conference, and subsequently at the joint meeting of the Board and Presidents.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.