Minutes for April 23, 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	
Gov. Szymczak		x
Gov. Mills	x	
Gov. Robertson	x	
Gov. Balderston	x	
Gov. Shepardson	x	
Gov. King	x	

Minutes of the Board of Governors of the Federal Reserve System on Thursday, April 23, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Marget, Director, Division of International Finance
Mr. Hackley, General Counsel
Mr. Noyes, Adviser, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Benner, Assistant Director, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of San Francisco on April 22, 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 the Bank.

Employee benefit funds of national banks (Item No. 1). On March 20, 1959, the Board considered the Budget Bureau's request for its views with respect to a draft bill proposed by the Treasury Department on behalf of the Comptroller of the Currency "to regulate the administration of pension, profit-sharing and employee welfare or benefit funds of employees of national banks", and it was decided that staff comments on the proposed bill should be transmitted to the Comptroller before a reply was sent to the Budget Bureau. In a memorandum dated April 20,

1959, which had been distributed to the Board, Mr. Hexter advised that he had met with representatives of the Comptroller's Office and received the impression that a number of the questions raised by the Board's staff were considered sufficiently complex to require reconsideration and redrafting of the bill in a number of respects. However, the Comptroller's Office was not in sympathy with the point of view that any Federal regulatory legislation regarding employee benefit plans should relate to corporations generally. The Office felt that maladministration of a national bank's pension plan might reflect adversely on the bank itself, to the detriment of the banking system, and that such plans therefore presented a special situation calling for statutory regulation and supervisory control, even if the Congress did not consider such regulation and control to be desirable with respect to pension plans generally.

Submitted with Mr. Hexter's memorandum was a draft of letter to the Budget Bureau that would indicate that the Board was not in a position to express a judgment regarding the advisability of Federal legislation relating to the establishment and administration of employee benefit plans, either generally or with respect to national banks. The question therefore was raised whether employee benefit plans of national banks possessed special characteristics or presented special problems calling for legislative regulation even though the Congress might

conclude that legislation of such nature was not called for with respect to employee welfare plans of corporations generally. The proposed letter would further state that a number of questions regarding the draft bill had been brought to the attention of the Treasury Department and were understood to be receiving consideration.

In discussion, the point of view was expressed that the letter to the Budget Bureau should be phrased so as to reflect a more positive attitude toward consideration of legislation in the area of regulation of employee benefit plans of banks. In this connection it was noted that if legislation in this area were to be considered, the question would arise whether it should not extend to the regulation of employee benefit plans of all insured banks, rather than national banks alone. This would leave for consideration by the Congress whether employee benefit plans of banks presented problems calling for special legislative regulation or whether bank plans should be considered in relation to employee benefit plans of corporations generally. It was brought out that the Welfare and Pension Plans Disclosure Act, which went into effect at the beginning of this year, was aimed chiefly at disclosure of information regarding such plans rather than their regulation.

In the light of the discussion, suggestions were made for several changes in the proposed reply to the Budget Bureau and unanimous approval then was given to a letter to the Bureau in the form attached as Item No. 1.

Acceptance of housing authority deposits as savings deposits.

A State member bank had raised through the Federal Reserve Bank of New York the question whether the Mechanicville Housing Authority, Mechanicville, New York, was, within the meaning of section 1(e) of Regulation Q, Payment of Interest on Deposits, a corporation "operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit" so that its deposits might properly be classified as savings deposits under the provisions of that Regulation. The New York Reserve Bank was inclined to the view that the Housing Authority might be so regarded. A memorandum from Mr. Hooff, Assistant Counsel, dated April 17, 1959, which had been prepared in the light of discussion of certain similar cases with Counsel for Federal Reserve Banks and Counsel for the Federal Deposit Insurance Corporation, recommended that member banks be allowed to accept savings deposits from public housing authorities in line with an earlier Board position that deposits of certain political subdivisions not operated for profit, and not organized primarily for governmental purposes, such as school districts and poor districts, might properly be classified as savings deposits. In some States, it was noted, the courts had reached the conclusion that certain public housing authorities of this kind were created for charitable purposes. Attached to the memorandum was a draft of letter suggested for transmittal to the Federal Deposit Insurance Corporation for consideration before being sent to the Federal Reserve Bank of New York. The

memorandum also suggested that the Board's opinion, when finally adopted, be circularized among the Federal Reserve Banks and published in the Federal Reserve Bulletin and the Federal Register.

Mr. Hackley pointed out that at one time the definition of a savings deposit was based on an objective test; that is, whether the funds to be deposited were to be used for bona fide thrift purposes. However, the test was changed so as to provide that a deposit could be classified as a savings deposit if made by an individual or by a corporation or other organization established and operated for a charitable or similar purpose. In 1936 the Board published an opinion that municipal corporations could not have savings deposits, but questions arose almost immediately with regard to school and poor districts and the Board subsequently held that such districts were operated not primarily for governmental purposes but instead for educational or charitable purposes. In the present case, the question involved a public housing authority organized under New York State law for the purpose of conducting slum clearing projects. It seemed similar to authorities that the courts in other states had regarded as being in the nature of public charities. As pointed out in the letter received from the Federal Reserve Bank of New York, the housing authorities are corporate entities separate from the municipalities where located; the Merchanicville Housing Authority was established for the accomplishment of any or all purposes specified in Article 18 of the Constitution of the State of New York, namely, to provide

housing for persons with low income, to provide for the clearance, replanning, reconstruction, and rehabilitation of substandard and insanitary areas, and to provide recreational and other facilities incidental or appurtenant thereto. While deposits of such an authority therefore would seem to fall within the scope of the Board's ruling made more than 20 years ago, a more fundamental and far-reaching question was whether any corporation should be permitted to maintain savings deposits.

Mr. Hackley went on to say that many years ago the Federal Deposit Insurance Corporation took the position that a municipal housing authority could maintain a savings deposit. However, it was understood that in recent years there had been within the Corporation some informal opinions rendered to the effect that such authorities might maintain savings deposits only if the State's statutes held specifically that the authorities in question were public charities.

In a further comment, Mr. Hackley said that the Board's published ruling on school districts in 1936 had formed the basis for opinions given by Federal Reserve Banks in similar cases. Therefore, any different ruling by the Board at this time would require review of numerous outstanding situations.

Governor Mills said that after reading Mr. Hooff's memorandum and the letter from the Federal Reserve Bank of New York it was his reaction, which he communicated to the Legal Division, that it seemed doubtful whether funds of a housing authority should be considered eligible

for classification as savings deposits. It appeared to him that fundamentally the question was whether the funds sought to be deposited actually were public funds. Where an authority was operated by public appointees, those operating such funds presumably were accountable to the municipality, the securities enjoyed a tax-exempt status, and only State and municipal securities were eligible for such status, it was his reasoning that the funds of such an authority were clearly public funds. While all State and municipal authorities presumably are created for the general benefit of the public, the funds administered by such authorities would not appear to be funds accumulated in the process of saving.

Governor Robertson expressed concern about the ultimate outcome of a series of rulings based on the 1936 interpretation with respect to school and poor districts, and for this reason he felt that the problem was deserving of study. While he would be willing to live with the precedents established in 1936, he would like to feel sure that the basis was a sound one because of other problems apt to come before the Board in the future. After referring to a note concerning the present case that had been sent to him by Mr. Riefler, Assistant to the Chairman, he suggested that in view of Mr. Riefler's long experience in studying public housing it might be helpful for representatives of the Legal Division to review the subject with him before the Board reached a decision.

There followed a general discussion of the subject, including distinctions between savings and other time deposits, during which Chairman Martin expressed agreement with the idea of full review of the question but indicated that at the moment he would not be inclined to reverse the outstanding Board rulings because he felt that there must be many savings accounts maintained for parties falling within the categories that would be affected.

At the conclusion of the discussion, agreement was expressed with Governor Robertson's suggestion that the problem be reviewed with Mr. Riefler by the legal staff prior to further consideration of the matter by the Board.

Messrs. Hexter and Benner then withdrew from the meeting.

Opening of account for Italian Foreign Exchange Office (Item No. 2). In a telegram dated April 22, 1959, Vice President Exter of the Federal Reserve Bank of New York advised of a request from the Ufficio Italiano Dei Cambi (the Italian Foreign Exchange Office) that an account in the name of the organization be opened and maintained on the books of the New York Reserve Bank. Mr. Exter stated that the officers of the Reserve Bank, being satisfied that the Ufficio was the agency of the Italian Government primarily responsible for holding and managing Italy's foreign exchange reserves, intended to recommend favorably on the request to the Board of Directors at its meeting today. The request was reported

to be considered urgent, possibly because of a bond issue on behalf of the Southern Italy Development Fund scheduled to be offered today. A memorandum from the staff of the New York Bank dated January 9, 1959, previously forwarded to the Board's staff, contained additional information on the legal status and functions of the Italian Foreign Exchange Office.

Following favorable comments by Mr. Marget, the opening and maintenance of the account by the New York Reserve Bank was approved unanimously, subject to authorization by the Reserve Bank's Board of Directors. A copy of the telegram sent to Vice President Exter pursuant to this action is attached as Item No. 2.

Mr. Marget then withdrew from the meeting.

Proposed amendments to Regulations T and U. Mr. Noyes reported that an officer of the New York Stock Exchange had raised with him the question whether representatives of the Exchange might be permitted to attend the hearings to be held by the Board on Wednesday, April 29, pertaining to the proposed amendments to Regulations T and U, even though the Exchange had no comments to offer other than those previously submitted in writing. The question was raised because a representative of the New York Reserve Bank had inquired of the Exchange whether it wished to be heard by the Board on the date specified. This inquiry was made pursuant to the Board's action on Monday, April 20, the Board having understood that the Exchange previously had asked a member of the Board's

staff whether any hearings were to be held. Mr. Noyes said he had indicated to the officer of the Exchange that any such request should be made through the New York Reserve Bank.

After discussion, it was the Board's view that participation in the hearings should be limited to parties who had expressed a desire to make an oral presentation. Accordingly, it was understood if the New York Stock Exchange should raise through the New York Bank the question reported by Mr. Noyes, the answer should be in the negative.

Governor Robertson stated that in accordance with the understanding at the meeting yesterday, he advised President Livingston of the Federal Advisory Council that the Board would be prepared to receive the comments of the Council regarding the proposed amendments at the joint meeting on April 28, inasmuch as it had now developed that action thereon would not be taken by the Board until after that date.

Mr. Noyes then withdrew from the meeting.

Old Kent case. It was noted that the United States District Court for the District of Columbia had granted the motion for summary judgment filed by the Board with respect to the suit brought against it by Old Kent Bank and Trust Company, Grand Rapids, Michigan.

Continental Bank and Trust Company. Governor Mills suggested a need for those in the Federal Reserve System, including representatives of the Federal Reserve Bank of San Francisco, to proceed without bias

or prejudice in matters relating to The Continental Bank and Trust Company, Salt Lake City, Utah, and there was general agreement that caution should be exercised to preserve such an attitude. It was suggested that Governor Mills might wish to express his views to the President of the San Francisco Reserve Bank when an appropriate opportunity presented itself.

Disclosure of unpublished information. With reference to the recent court action dismissing a suit brought against the Federal Reserve Bank of San Francisco by The Continental Bank and Trust Company, Governor Mills expressed concern about the Board's authorization for the release of certain unpublished information in connection with the defense of that suit. He indicated that his concern arose out of a feeling that the procedure followed might have been different if some other member bank had been involved and, in a broader sense, out of his view that the System should not succumb to the temptation to disclose unpublished information on occasions where such disclosure would serve its own interests in relation to a particular proceeding. In this connection, he also referred to the Board's action on April 6, 1959, authorizing the disclosure to interested parties of the application that formed the basis for the recent public hearing involving First Bank Stock Corporation of Minneapolis, Minnesota, which application included a contract between First Bank Stock and Minnesota Mining and Manufacturing Company. As he saw it, the contract had nothing to do with the issue of whether First Bank Stock should be permitted to expand but did contain evidence of

relationships between the parties to the contract, including the terms and price at which the transaction involved would be closed. The price was in a sense a premium being paid for the deposits of the bank passing into new ownership, and he did not feel that such information should be made available to competitors.

Governor Mills also referred to informal inquiries made by the Legal Division concerning the practices of several Government agencies having a similar problem which indicated that it was the general practice of those agencies not to disclose certain limited types of information in connection with an application.

During a discussion based on Governor Mills' comments, Governor Balderston noted that the Board's unpublished information, including that contained in the loose-leaf service, contained a considerable amount of material that was in no sense confidential. While he felt that the general principle of confidentiality ought to be preserved whenever the rights of member banks or other parties were in question, he believed that confidentiality ought not to be used as a cloak to protect the Federal Reserve System against criticism. In other words, he felt that the System should be careful not to deny to the courts or to interested citizens information that perhaps would throw light on whether the System had properly discharged its functions.

In this respect, Mr. Hackley commented that the Federal Reserve Banks were under instruction not to make letters in the loose-leaf service (so-called S-letters) public, although the Banks were permitted to

disclose the substance of many of those letters. According to the Board's rules, unpublished information shall not be disclosed to member banks or others without the Board's permission. Of the unpublished material, only a small proportion would be of a confidential nature, but the Board's rules were designed to afford a safeguard against improper release.

With further reference to the release of certain unpublished information in connection with defense of the suit brought by Continental, Governor Shepardson expressed the view that the question of confidentiality would appear to run to information regarding a particular member bank. In the Continental case, the unpublished information consisted of instructions issued by the Board to the Federal Reserve Banks with regard to normal operating procedures. As he stated when the question was under consideration, it occurred to him that banks under the supervision of the System should be entitled to know of outstanding instructions pertaining to general supervisory procedure and that such material would not come within the category of information that should properly be safeguarded in the interest of a member bank.

At the conclusion of the discussion, Mr. Hackley indicated that, within the scope of the Board's rules, there might be the possibility of drafting certain guides for the Board's consideration. He was

inclined to doubt, however, whether such guides would be particularly helpful. Instead, it appeared that each question of release of unpublished information must be considered on its merits in the light of the facts involved.

The meeting then adjourned.

Secretary

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

Item No. 1
4/23/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 23, 1959

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in reference to your Legislative Referral Memorandum of January 20, 1959, requesting the Board's views with respect to a draft of a bill proposed by the Treasury Department, on behalf of the Comptroller of the Currency, "To regulate the administration of pension, profit-sharing and employee welfare or benefit funds of employees of national banks."

The Comptroller of the Currency is the primary supervisor of the national banking system, and therefore great weight should be given to his judgment regarding both the advisability and the terms of Federal legislation to regulate establishment, investments, borrowings, and supervision of employee-benefit plans relating to employees of national banks. The question arises whether any such legislation should not cover employee-benefit plans of all insured banks, rather than national banks alone, in view of the similarity of the situations of most banks in this respect. A related question to be considered in connection with the Treasury's proposal is whether banks' employee-benefit plans possess peculiar characteristics or present peculiar problems that call for special legislative regulation, or whether Congress should consider banks' plans as part of the broader question whether legislation of this nature is called for with respect to emplcyee-benefit plans of corporations generally. As you know, the "Welfare and Pension Plans Disclosure Act" of August 28, 1958 is aimed chiefly at disclosure of information regarding such plans, rather than their regulation.

A number of other questions regarding the draft bill have been brought to the attention of the Treasury Department, and it is understood that they are receiving consideration.

Very truly yours,

Merritt Sherman,
Secretary.

TELEGRAM

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
LEASED WIRE SERVICE
WASHINGTON

Item No. 2
4/23/59

April 23, 1959.

EXTER - NEW YORK

Your wire April 22. Board approves the opening and maintenance of an account on your books in the name of the Ufficio Italiano Dei Cambi subject to the usual terms and conditions upon which your Bank maintains accounts for foreign central banks and governments. This approval is subject to authorization of your Board of Directors. It is understood that you will in due course offer participation in this account to other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN