Minutes for June 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	
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 Tuesday, June 9, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Economic Adviser to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Shay, Legislative Counsel
Mr. Benner, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Hill, Assistant to the Secretary
Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics
Miss Hart, Assistant Counsel

Questions on Regulation U (Item No. 1). Pursuant to the understanding at yesterday's meeting, there had been distributed to the Board a revised draft of reply to a letter from the Continental Illinois National Bank and Trust Company, Chicago Illinois, raising questions concerning the definition of "carrying" contained in Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, as amended effective June 15, 1959.

Following comments by Mr. Hackley on the revised draft, which had been prepared in an effort to be as responsive and informative as possible, question was raised regarding the phrasing of the concluding

portion and Mr. Hackley observed that the purpose of the illustrations contained in the letter was to indicate a presumption. Each individual case, however, would require consideration of the particular circumstances involved, and the general presumption was subject to rebuttal in the light of such circumstances.

Unanimous approval then was given to the proposed letter, a copy of which is attached hereto as Item No. 1. It was understood that an appropriately edited version of the letter would be sent to all Federal Reserve Banks as a matter of information.

Miss Hart and Mr. Brill then withdrew from the meeting.

Letter to Congressman Reuss (Item No. 2). There had been distributed to the Board a draft of reply to a letter dated June 4, 1959, from Congressman Reuss of Wisconsin with respect to a proposed change in the pending reserve requirements bill which had been the subject of previous correspondence between Mr. Reuss and the Board. In the form presently proposed, the amendment would continue to provide uniform requirements for all reserve city banks, including those in New York and Chicago, when set at less than 20 per cent, but it would permit a differential when the requirement for large New York and Chicago banks was set above 20 per cent and the requirement for other reserve city banks was fixed at the maximum of 20 per cent.

The proposed reply would state that the Board favored maintaining three classes of banks for reserve purposes, as provided in present law, and that in the Board's belief this would be more simply and effectively accomplished by eliminating the provision abolishing central reserve banks from the pending bill than by the Reuss amendment, which would defeat the purpose of having a third class of banks for reserve purposes under conditions likely to prevail. Furthermore, since the proposed amendment would permit the fixing of a reserve requirement higher than 20 per cent only for member banks in New York and Chicago, it would not be as flexible as the Board's present authority to classify other cities as central reserve cities should that become desirable. The reply would also state that the Board continued to believe a maximum requirement of 20 per cent would be adequate for all foreseeable purposes, but that if the Congress should decide to retain the present central reserve city classification, with a maximum of 26 per cent for banks in such cities, the Board would see no serious objection. The letter would suggest two technical changes in Mr. Reuss' proposed amendment, one of which would serve to meet the legal objections expressed in the June 2 reply to a previous letter from Mr. Reuss. While these changes would clarify the amendment, the proposed reply would state that the Board nevertheless would not favor the amendment's adoption.

After certain minor changes in the proposed letter had been suggested, Governor Balderston raised the question whether the Board

would want to change somewhat the position it had taken thus far in the correspondence with Mr. Reuss and state that, if the changes suggested in the draft of reply were made, the Board would not object seriously to adoption of the proposed amendment. In making this comment, he recognized that Mr. Reuss' suggestion was not a particularly good one because the differential between New York and Chicago banks and other reserve city banks would not be put into effect until the requirement for reserve city banks generally was at the maximum of 20 per cent. Also, the authority to go beyond 20 per cent would be limited to banks in two cities, New York and Chicago. However, with the central reserve city classification apparently having been lost, Governor Balderston wondered whether the Board should continue to insist that it would object vigorously to retention of a 26 per cent maximum requirement for large New York and Chicago banks. He then read suggested language which would indicate that although the Board would prefer retention of three classes of cities for reserve purposes, it would have no strong objection, assuming the central reserve city classification was not retained, to the inclusion of provisions in the reserve requirements bill along the lines of the Reuss amendment, as modified to the extent suggested in the current reply to Mr. Reuss.

After discussion revealed general agreement with the suggestion of Governor Balderston, certain modifications in his proposed language

were agreed upon and unanimous approval was given to a letter to Congressman Reuss in the form attached as Item No. 2, with the understanding that copies would be sent to Chairman Spence of the House Banking and Currency Committee and Chairman Brown of Subcommittee No. 2 of that Committee.

Letter to Congressman Celler (Item No. 3). There had been distributed to the Board a draft of reply to a letter dated June 4, 1959, in which Chairman Celler of the House Committee on the Judiciary inquired whether the Board was undertaking an investigation of the proposed merger of Chemical Corn Exchange Bank and the New York Trust Company, both of New York City; the nature of such investigation; whether the Board intended to consult with the Antitrust Division of the Department of Justice and with the New York State Superintendent of Banks; and whether the Board proposed to hold hearings on the matter.

Mr. Hackley pointed out that the proposed reply was similar to the letter sent to Mr. Celler when he first inquired concerning the J. P. Morgan and Co.-Guaranty Trust Company merger at a time when that proposal had just been announced. The draft letter, he noted, implied that when the Board received an application in connection with the Chemical-New York Trust transaction, it would again communicate with Mr. Celler.

Unanimous approval then was given to the proposed letter to Congressman Celler, a copy of which is attached as Item No. 3.

Mr. Benner then withdrew from the meeting.

Verification and destruction of unfit United States currency (Items 4 and 5). There had been distributed to the Board a draft of letter to Acting Secretary of the Treasury Baird in reply to his letter of June 1, 1959, concerning the verification and destruction of unfit United States currency. The Board had, in a letter dated March 19, 1959, requested the Treasury's views regarding the adoption of alternative procedures which would eliminate certain security risks thought to be inherent in the present arrangement. Two plans were suggested, both of which would involve greater cost to the Treasury. In his June 1 letter, the Acting Secretary of the Treasury suggested that it would be desirable for representatives of the Board to meet with representatives of the Treasury to identify operations in which opportunities for irregularities might be found and to explore possible means by which such opportunities might be minimized. Mr. Baird also stated in his letter that Mr. Heffelfinger, Fiscal Assistant Secretary of the Treasury, had communicated with Mr. Leach, Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, for the purpose of arranging a discussion with representatives of the Federal Reserve Banks relative to the factors occasioning the recent cost increase in the currency verification and destruction operation.

The proposed reply to Mr. Baird stated that the matters mentioned in his letter and in the letter from Mr. Heffelfinger to Mr. Leach were both matters of System interest and closely related. The reply therefore suggested a meeting on both subjects at which the Board, the Reserve Banks, and the Treasury would be represented.

A draft of letter to the Presidents of all Federal Reserve Banks, which had also been distributed, suggested discussion of the verification and destruction function at the meeting of the Presidents' Conference on June 15, with a view to designating the Presidents who would attend the proposed meeting with Treasury representatives.

Mr. Farrell stated that he had discussed the matter with Mr. Leach, who was agreeable to the approach outlined in the draft letters. Mr. Farrell noted that the Division of Bank Operations was in the midst of a survey of currency verification and destruction operations at each of the offices where the work was being performed to determine the procedural variations and the reasons therefor. He thought the report could be completed and in the hands of System representatives by about mid-July, which would permit a meeting with Treasury representatives by the end of that month.

Following suggestions for minor changes in the draft letters, question was raised whether it would be desirable for the Reserve Bank General Auditors to be represented at the meeting with the Treasury. It was agreed, however, that the preferable procedure would be for each President to obtain the views of the General Auditor at his Bank.

Unanimous approval then was given to letters to Mr. Baird and to the Presidents of all Federal Reserve Banks in the form attached hereto as Items 4 and 5, respectively.

Statement before Ways and Means Committee. At yesterday's meeting reference was made to a draft, distributed shortly before the meeting, of a statement to be made by Chairman Martin before the House Ways and Means Committee on June 10, 1959, in connection with hearings on Administration proposals to increase the national debt limit, eliminate the rate ceiling on Treasury bonds, and increase the interest rates on United States savings bonds. (The Chairman's appearance later was deferred until June 11.)

Members of the Board expressed the view that the draft of statement to be made by the Chairman was well developed. It was indicated that certain suggestions had been made to the staff and that other changes would be suggested before the statement was put in final form. Agreement was expressed with the view that the testimony should specifically support the Administration proposals.

In this connection, it was indicated that copies of the statement of the Secretary of the Treasury before the Committee would be distributed to the Board members as soon as available.

Mr. Shay stated that he understood Congressman Reuss had obtained permission to appear before the Committee to urge adoption of a suggested amendment to one of the proposals that would, in effect, require the

Federal Reserve to support the financing of the Government debt through purchases of Government securities and to make more flexible use of reserve requirements.

It was then understood that the statement drafted for the use of the Chairman would be revised on the basis of such further suggestions as might be received and presented in a form satisfactory to Chairman Martin.

Letter on S. 2034 (Item No. 6). Reference was made to a letter that had been received from the Chief Clerk of the Senate Committee on the District of Columbia inquiring whether Chairman Martin or any other Board member wished to testify at forthcoming hearings on S. 2034, a bill "to amend the District of Columbia Income Tax and Franchise Tax Act of 1947, as amended, to provide that certain additional specific officers of the executive branch of the Federal Government shall be exempt from such Act". Among those specifically exempted would be the members of the Board of Governors not domiciled in the District of Columbia on the last day of the taxable year. An identical bill was reported out recently by the House District Committee.

It was indicated that no Board member wished to testify. However, it was agreed that an appropriate letter should be sent to the Senate Committee indicating that the bill would appear to clarify a difficult problem existing in the present law.

A copy of a letter sent to the Chief Clerk of the Committee pursuant to this understanding is attached as Item No. 6.

Program for Japanese group. In view of circumstances mentioned by Governor Shepardson, it was agreed that a luncheon should be included in the program to be arranged on July 15, 1959, in connection with a visit to the Board's offices by a group of Japanese officials interested in studying the securities markets and traveling under the sponsorship of the International Cooperation Administration.

This action was taken with the understanding that no precedent was being set and that each question of this kind would be considered on an ad hoc basis. In this connection, Chairman Martin expressed the view that the Board's responsibility for appropriate reception of those desiring to visit its offices extended into various sectors of the financial field and was not necessarily restricted to representatives of member banks and foreign central banks.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved today on behalf of the Board a memorandum from Mr. Fauver, Assistant Secretary, dated June 8, 1959, recommending that a visit to the Board's offices on June 24, 1959, be arranged for participants in the current training program of the International Bank for Reconstruction and Development. The program was to include lunch.

Governor Shepardson also approved a memorandum from Mr. Marget, Director, Division of International Finance, dated June 1, 1959, recommending acceptance of the resignation of Nancy S. Martino, Economist in that Division, effective June 13, 1959.

Secretary

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

Item No. 1
6/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 9, 1959

Mr. James D. Walsh, Second Vice President,
Continental Illinois National Bank
and Trust Company of Chicago,
231 South LaSalle Street,
Chicago 90, Illinois.

Dear Mr. Walsh:

Your letter of May 28, 1959, asks, in substance, two questions concerning section 221.3(b)(1) of Regulation U as amended effective June 15, 1959. First you inquire whether the cases set forth in that section are the only ones in which a loan is not to be deemed to be for the purpose of "carrying". Second, you ask for guidance as to whether loans in a number of specific situations are or are not to be deemed to be for such purpose.

The answer to your first question is that, while section 221.3(b)(1) sets forth the main cases in which a stock-secured loan would probably not be one for the purpose of "carrying", these cases are not intended to be all inclusive. Thus there may be cases in which loans are made on the security of stock which has been held for more than a year, but in which, under all the circumstances, the loans are for the purpose of "carrying". Conversely, there may be loans secured by stock which have been held for less than a year, where the loans are not for that purpose. In other words, the effect of the section is to create a rebuttable presumption that a loan is for the purpose of "carrying" where secured by stock which the borrower has held for less than a year and, similarly, a rebuttable presumption to the contrary where the stock has been held for more than a year.

With respect to your second question, it is evident that the point of concern is the relationship between the presumption created by the length of time for which the stock has been held, and the presumption created by the purpose of the loan. In general, where the stock to be pledged as collateral has been held for less than a year, as in the conditions stipulated under (1), the loan would have to be treated as a regulated loan unless the lending officer could be satisfied that the purpose of the loan was not to replenish funds used to make the purchase of the registered stock offered as collateral.

Conversely, while the lending officer would not be excused from inquiring into background circumstances in the illustrations referred to under (2) where the stock offered as collateral had been held for more than a year, this fact would create a presumption that the loan was not for the purpose of carrying the stock, and the fact that there was a prior history of borrowing for the same purpose, or that the expenses were of an unforeseen nature, would strengthen this presumption.

In all the illustrations cited under (1), the fact that the listed stock to be pledged as collateral for the loan has been held for less than a year creates a presumption that the loan is for the purpose of "carrying". However, several of the illustrations concern loans which seem superficially, and without taking additional circumstances into account, to be for the purpose of meeting emergency expenses, or recurring expenses the borrower has customarily met by temporary borrowing. Thus, setting aside for the moment other possible factors, it would appear that a loan secured by such stock to pay income taxes which the borrower has customarily paid by borrowing money, or to buy a new car to replace one destroyed in an accident or fire, or to pay medical expenses (as in illustrations (b), (e) and (f)), need not be treated as purpose loans.

It is expected that lending officers will take all relevant circumstances into consideration in applying the principles set forth in the regulation. If the lending officer is unable to arrive at an answer in a specific instance, the facts of the case may be laid before the Federal Reserve Bank, and if the Federal Reserve Bank, after due consideration, should think it desirable, it may of course apply for an interpretation by the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
6/9/59

OFFICE OF THE CHAIRMAN

June 11, 1959.

The Honorable Henry S. Reuss,
House of Representatives,
Washington 25, D. C.

Dear Mr. Reuss:

In reply to your letter of June 4, I can only restate the Board's position with respect to the change you propose in the reserve requirements bill. The Board favors three classes of banks for reserve purposes as provided in present law. We believe, however, that this purpose would be more simply and effectively accomplished by eliminating from the present bill the provision abolishing central reserve city banks than by your proposed amendment.

Your amendment evidently would necessitate uniform requirements for all reserve city banks, including those in New York and Chicago, when set at 20 per cent or less, and would permit a differential only when requirements for New York and Chicago are set above 20 per cent. This would defeat the purpose of having a third class under conditions that are likely to prevail.

Since your proposed amendment would permit the fixing of higher reserve requirements only for member banks in New York and Chicago, it would not be as flexible as the Board's present authority to classify other cities as central reserve cities if it should become desirable to require higher reserves for banks in such cities.

The Board, as previously stated, believes that a maximum requirement of 20 per cent would be adequate for all foreseeable purposes, but, if Congress should decide to retain the present central reserve city classification with a maximum of 26 per cent for banks in such cities, the Board would not object.

As a technical matter, the language suggested in your letter might, with some further clarifications, be sufficient to

meet the legal objections suggested in my letter of June 2. The proposed new parenthetical language in clause (1) of the 6th paragraph of section 19 might be clearer if it merely read: "(except that the requirements fixed for member banks in New York City and Chicago need not be the same as those fixed for member banks in other reserve cities if the percentage fixed against demand deposits for banks in such cities is higher than 20 per centum)". Elimination of the "if" clause in the above language would meet the objection stated in the second paragraph of the present letter.

Again as a technical matter, it is suggested that the new exception at the end of the proposed amendment would be clearer if changed to read: "except that the maximum amount of reserves that may be required to be maintained against demand deposits by member banks in New York City and Chicago shall be 26 per centum, provided that the Board of Governors may permit any such bank to carry the lower reserve prescribed for member banks in other reserve cities or for member banks not in reserve cities in the same manner and subject to the same conditions as provided in subparagraph (2) of the preceding paragraph of this section."

With these changes in your proposed amendment (including the elimination from the suggested change in clause (1) of the words "if the percentage fixed against demand deposits for banks in such cities is higher than 20 per centum"), the Board would not object to adoption of the amendment, although it would prefer the bill as originally introduced.

Sincerely yours,

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
6/9/59

OFFICE OF THE CHAIRMAN

June 9, 1959

The Honorable Emanuel Celler, Chairman,
Committee on the Judiciary,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of June 4, 1959, referring to reports of the proposed merger of the Chemical Corn Exchange Bank and the New York Trust Company, both of New York City, and requesting to be advised as to (1) whether this Board is undertaking an investigation of the proposed transaction, (2) the nature of such investigation, (3) whether or not the Board will consult the Antitrust Division and the New York State Superintendent of Banks, and (4) whether or not the Board proposes to hold hearings with respect to this matter.

This proposal is, of course, of considerable interest to the Board. However, no application has been received by the Board in connection with the proposed transaction. As you know, the Board would have no statutory responsibility with respect to the proposed merger itself unless it should involve a diminution in the combined capital or combined surplus of the merging institutions so as to require the Board's approval under section 18(c) of the Federal Deposit Insurance Act; and the transaction would not fall within section 7 of the Clayton Act, under which the Board has certain jurisdiction, unless it should involve an acquisition of stock. However, the establishment by the continuing bank of branches at locations of former offices of the absorbed institution would require the Board's approval.

Unless and until an application is received by the Board in connection with this proposal, the Board believes that it would not be in a position to respond to the questions stated in your letter, since answers to those questions would depend upon the circumstances surrounding the application. If any such application is received, the Board will be glad to advise you promptly as to its related responsibilities and proposed procedures.

Sincerely yours,

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
6/9/59

OFFICE OF THE CHAIRMAN

June 9, 1959

The Honorable Julian B. Baird,
Acting Secretary of the Treasury,
Washington 25, D. C.

Dear Mr. Secretary:

Thank you very much for your letter of June 1 concerning the verification and destruction of unfit United States currency.

The Board would be happy to arrange for representatives of the Federal Reserve System to meet with representatives of the Treasury to discuss this matter, as suggested in your letter. You suggested that such a meeting might identify operations in which opportunities for irregularities may be found and explore means by which they could be minimized. It is noted that Mr. Heffelfinger has also written to Mr. Leach, Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, to suggest discussions with representatives of the Federal Reserve Banks on the matter of variations in costs and procedures followed in verifying and destroying the unfit United States currency.

It appears to the Board that both of these matters are of System interest and that they are closely related. In this latter connection, the Board understands that the variations among the Reserve Banks in the procedures followed result largely from additional precautions that are felt necessary at certain Banks to improve the security of the operation.

In this light the Board feels that the purposes mentioned by both you and Mr. Heffelfinger could be most effectively served if the Presidents, after discussing the matter at their forthcoming Conference on June 15, could designate one, two, or three Presidents to join with representatives of the Board in discussing the whole problem at a meeting with representatives of the Treasury.

After the Presidents have had an opportunity to consider this proposal, I shall be pleased to get in touch with you with regard to further arrangements for the suggested meeting.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 5
6/9/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 9, 1959.

Dear Sir:

Enclosed are a copy of a letter to Chairman Martin from Mr. Julian B. Baird, Acting Secretary of the Treasury, and a copy of a letter to President Leach from Mr. W. T. Heffelfinger, Fiscal Assistant Secretary of the Treasury, both with regard to the currency verification and destruction operation.

Mr. Baird's letter suggests that representatives of the Treasury meet with representatives of the Federal Reserve System to identify operations in which opportunities for irregularities may be found and to explore means by which they may be minimized, and Mr. Heffelfinger's letter suggests that representatives of the Federal Reserve Banks and the Treasury meet to discuss explanations of the rising costs and the possibility of establishing greater uniformity in the procedures followed by the Reserve Banks.

It appears to the Board that both of these matters are of System interest and that they are closely related. In this latter connection, the Board understands that the variations among the Reserve Banks in the procedures followed result largely from additional precautions that are felt necessary at certain Banks to improve the security of the operation.

In this light the Board suggests that the purposes mentioned by both Mr. Baird and Mr. Heffelfinger could be most effectively served if, after discussing the matter, the forthcoming Presidents' Conference could designate one, two, or three Presidents to join representatives of the Board in discussion of the whole problem, including the views of the various General Auditors, at a meeting with representatives of the Treasury.

In connection with the proposed program it may be of interest to mention that the Board's Division of Bank Operations is currently engaged in making a survey of the currency verification and destruction

operation at each office where the work is being performed. These surveys are aimed specifically toward determining the variations in the procedures followed and the reasons therefor. It is hoped that a report of these surveys can be made available to the designated representatives of the Presidents' Conference before any meetings are held with the Treasury.

The Board regrets having to suggest discussion of this topic at the forthcoming Conference on such short notice, but it hopes that because of previous discussions of the matter the Presidents will be agreeable to the program outlined above. Because of the short time before the Conference, the proposed handling of the matter has been discussed informally with Mr. Erickson as Chairman of the Presidents' Conference, and this letter is being sent directly to each President.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures 2.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
6/9/59

OFFICE OF THE CHAIRMAN

June 9, 1959

Mr. Chester H. Smith,
Chief Clerk,
Committee on The District of Columbia,
United States Senate,
Washington 25, D. C.

Dear Mr. Smith:

Your letter of June 8, 1959, related that hearings have been scheduled on June 15, 1959, before the Subcommittee on Fiscal Affairs of your Committee on S. 2034, which would exempt members of certain additional Federal agencies from the District of Columbia income tax law. You asked to be notified if I or any members of the Board desired to submit oral or written testimony on the bill.

It appears that the bill would correct a difficulty existing under the present law, and the invitation in your letter is appreciated. This will advise you, however, that neither I nor any of the members of the Board desire to appear before the Subcommittee or submit testimony on the bill.

Sincerely yours,

Wm. McC. Martin, Jr.