

Minutes for September 30, 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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

(M)
MS

Gov. Szymczak

Gov. Mills

MS

Gov. Robertson

Gov. Balderston

CRB

Gov. Shepardson

CS

Gov. King

JK

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, September 30, 1959. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Thomas, Economic Adviser to the Board
Mr. Young, Director, Division of Research and
Statistics
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Koch, Associate Adviser, Division of Research
and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Knipe, Consultant to the Chairman

Report by Mr. Marget. Mr. Marget reported on his recent partici-
pation at the International Economic Association's "Round Table on
Inflation" held at Elsinore, Denmark, September 2-10, 1959, as authorized
by the Board on January 16, 1959. The consensus of the reports made at
this meeting, he said, was that inflationary pressures were being con-
tained in most of the western nations. In this connection, he noted

1/ Withdrew from meeting and re-entered at points indicated in minutes.

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that there was generally favorable comment on the role played by the Federal Reserve in combatting inflationary pressures in the United States at the present time. He observed, furthermore, that the Radcliffe Committee report received considerable attention at the meeting. Mr. Marget also commented on his attendance at the September 14, 1959, meeting of the Bank for International Settlements held at Basle, Switzerland, in accordance with Board authorization given him on March 26, 1959, and on his visits to the central banks of Norway and Sweden.

Mr. Marget then withdrew and Mr. Benner, Assistant Director, Division of Examinations, Mr. O'Connell, Assistant General Counsel, and Mr. Davis, Assistant Counsel, entered the room.

Report on conversations with Mr. Knowles of the Joint Economic Committee staff. Mr. Young reported on conversations that he had with Mr. Knowles pursuant to the understanding at the Board meeting of September 25, 1959, regarding the problem of providing statistics on trading volume and dealer positions in the Government securities market for the period 1950 up to 1958. During the course of the ensuing discussion relating to the exact nature of the statistical information that the Joint Economic Committee desired, it was brought out that that Committee had the power to subpoena records of any Government security dealer who did not voluntarily supply the data desired by the Committee.

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The Chairman made it clear that in his estimation the System may have been delinquent with respect to supplying data on the Government securities market, for which he felt the System probably had greater responsibility than the Treasury. He suggested that an arrangement for providing information to the Joint Economic Committee should be worked out in a way to avoid suspicion that the System was attempting to conceal anything about the Government securities market.

In an effort to devise a means for assisting the Committee, it was agreed that Mr. Young might suggest to Mr. Knowles that Professor Smith of Harvard, whom the Committee had engaged to study the behavior of the Government securities market during the period 1950 through 1958, could submit a list of questions to the Trading Desk at the New York Federal Reserve Bank, and that he might explore other possible alternatives looking to development of better information in this field, keeping in mind a caution raised by Governor Mills that the confidentiality of information supplied to the System should be protected as a matter of principle. It was also suggested that the Chairman might undertake to discuss the situation with Mr. Lanston of the firm of Aubrey Lanston & Co., which thus far had declined to furnish certain historical data on the grounds that the cost to the firm would not be warranted.

Chairman Martin and Messrs. Young and Koch withdrew from the meeting at this point.

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Applications for prior approval under the Bank Holding Company Act. Memoranda from the Division of Examinations dated September 14 and from the Legal Division dated September 28, 1959, had been distributed to the Board concerning applications by the Atlantic National Bank and Atlantic Trust Company, both of Jacksonville, Florida, for prior approval pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 of the acquisition of up to 37,900 of the 40,000 outstanding shares (94.8 per cent) of a proposed new bank, the Southside Atlantic Bank, Jacksonville, Florida.

After Mr. Thompson had commented briefly on the factual background of the proposed acquisition of stock in the projected new bank by Atlantic National and Atlantic Trust, Mr. Hackley emphasized that the facts as discussed by Mr. Thompson could support either Board approval or Board denial of the application, but that it would be more difficult to support the latter than the former.

At this point Mr. Masters entered the room.

Mr. O'Connell added that the Board's action in the Southgate National Bank case of October 9, 1957, served as the basis for this opinion of the Legal Division.

It was understood that the Legal Division would prepare for the Board's consideration drafts of a notice of tentative decision and tentative statement approving the applications of Atlantic National Bank and Atlantic Trust Company.

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Messrs. O'Connell, Davis, Thompson, and Knipe then withdrew, and Mr. Brill, Chief, Capital Markets Section, Division of Research and Statistics, joined the meeting at this point.

Chairman Martin re-entered the room at this point and, upon being informed of the action taken with respect to the Atlantic case, stated that he concurred.

Letter to the Comptroller of the Currency recommending approval of an application to organize a national bank in Washington, D. C. (Item No. 1). Pursuant to the understanding at the Board meeting on September 29, 1959, Mr. Solomon said that he had talked on the telephone with Mr. Armistead of the Richmond Federal Reserve Bank regarding this application. He reported that the Richmond Bank had no desire to appear before the Board to support its views that the application should be disapproved and that, in fact, it recognized their conclusion had differed from the Board's in this instance due to a difference in approach. Mr. Armistead had indicated, Mr. Solomon said, that the Richmond Bank would not be unhappy if the application were approved.

Thereupon, unanimous approval was given to a letter in the form attached to these minutes as Item No. 1 addressed to the Comptroller of the Currency recommending approval of this application to organize a national bank in Washington, D. C.

Mr. Hexter then withdrew and Miss Hart, Assistant Counsel, and Mr. Farrell, Legal Assistant, entered the room.

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New York Clearing House Association views on "carrying" under Regulation U. As requested by the Board, a memorandum dated September 18, 1959, from Miss Hart had been distributed commenting on the points raised by the representatives from the New York Clearing House Association in their meeting with the Board on September 11, 1959, concerning a proposed interpretation of "carrying" under section 221.3(b)(1) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks.

After noting that the New York Clearing House Association was preparing an additional memorandum on this question, Mr. Hackley stated that the Legal Division desired Board guidance on whether or not it should proceed with further interpretations of the nine proposed principles relating to "carrying." He indicated that the Reserve Banks were anxious to have such interpretations, two of which had already been prepared by the Division. He went on to say that further interpretations carried the danger of giving the public the unwarranted idea that the Board was uncertain about what it meant. On the other hand, should interpretations be promulgated which appeared to go beyond the language of the regulation, the possibility would be suggested that the June 15, 1959, interpretation of "carrying" should be amended. In his estimation the basic issue was how far the Board wished to go to catch substantial evasions of the regulation at the expense of the attendant difficulties of interpretation and administrative burdens imposed on bankers. If the Board were not so

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concerned with preventing evasions, it would be easier, in his judgment, either to interpret the present amendment or redraft it.

Governor Mills pointed out that the Board was uninformed regarding the extent to which the regulation was being evaded currently. He suggested that it would be advisable to wait for the New York Clearing House Association's additional memorandum before proceeding further with the question of revising the regulation.

Governor Shepardson stated that Mr. Hackley's suggestion about redrafting the regulation was desirable if in principle it were possible to eliminate the question of interpretation. He said further that the "old" loans approach which made loans taken out before June 15, 1959, fall within the scope of section 221.3(b)(1) whenever changes in the conditions of the loan occurred was a move taken for controlling the amount of outstanding credit. He questioned whether this type of move was appropriate to controlling further credit expansion.

Governor Robertson commented that not only should each item in the presentation by the New York Clearing House Association be thoroughly discussed, but that the regulation should be revised since it was so difficult for the people applying it to understand.

At this point Mr. Hackley observed that a suggestion had been made in previous discussion of this question that if the interpretations

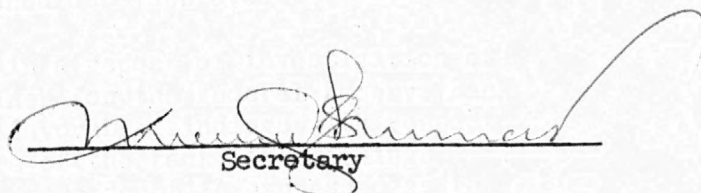
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of Regulation U were revised, the revisions should be published in the Federal Register for comment. In his opinion it seemed illogical to ask for comments on interpretations which reflected the Board's understanding of the regulation and, hence, were hardly proper cause for comment.

After a question from Governor King as to whether the Legal Division had received the reply of the Federal Advisory Council to question number six under date of September 9, 1959, had been answered affirmatively, it was agreed that the New York Clearing House Association memorandum on "carrying" should be taken up item by item at a subsequent meeting of the Board.

The meeting then adjourned.


Secretary

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

Item No. 1
9/30/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1959.

Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Attention Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated May 26, 1959, enclosing copies of an application to organize a national bank in Washington, D. C., signed by Mr. Eugene Young, Jr., and associates, and requesting a recommendation as to whether or not the application should be approved.

Information contained in a report of investigation of the application made by an examiner for the Federal Reserve Bank of Richmond indicates generally favorable findings with respect to the proposed capital structure of the bank, its earnings prospects and management. While some doubt is expressed as to the need for another bank in this area, it appears that the institution could develop sufficient business to operate profitably without adversely affecting existing financial institutions. Accordingly, the Board recommends favorable consideration of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

