

Governor Mills

ston *CCB*

Minutes for October 21, 1959

To: Members of the Board

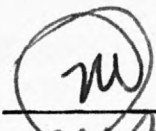
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

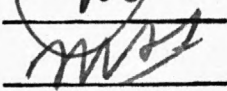
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

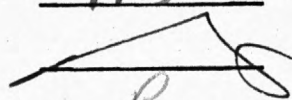
Chm. Martin



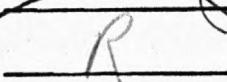
Gov. Szymczak



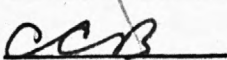
Gov. Mills



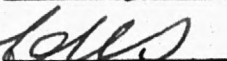
Gov. Robertson



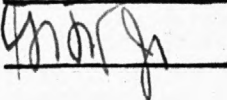
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on
Wednesday, October 21, 1959. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Marget, Director, Division of International
Finance
Mr. Hackley, General Counsel
Mr. Furth, Associate Adviser, Division of
International Finance
Mr. Hexter, Assistant General Counsel
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary
Mr. Farrell, Legal Assistant
Mr. Huning, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on October 19, 1959, and Kansas City on October 20, 1959, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated or distributed to the Board. The following items, which had been circulated or distributed to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

Item No.

Letter to the Northwest Des Moines National Bank,
Des Moines, Iowa, approving its application for
fiduciary powers.

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	<u>Item No.</u>
Letter to the First National Bank of Fremont, Fremont, Nebraska, approving its application for fiduciary powers.	2
Letter to the Alabama City Bank of Gadsden, Alabama, waiving the requirement of six months' notice prior to withdrawal from membership in the Federal Reserve System.	3
Telegram to the Federal Reserve Bank of New York approving an extension of the arrangement to make gold loans by that Bank to the Bank for International Settlements.	4

Mr. Huning then withdrew from the meeting.

Letter to Miller, Tallman & Company, Chicago, Illinois, regarding "Special Arbitrage Accounts" under Regulation T (Item No. 5). There had been circulated a memorandum from the Legal Division dated October 12, 1959, explaining that an inquiry had been received from Miller, Tallman & Company as to the meaning of the phrase "exchangeable or convertible within a reasonable time" in the language of definition 2 of section 220.4(d) of Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, providing for "Special Arbitrage Accounts" that are not subject to the margin requirements of that Regulation. It was noted that no prior official determination by the Board could be found as to what constituted a "reasonable time" for this purpose but that the New York Reserve Bank had consistently given the informal opinion in response to inquiries that a "reasonable time" for the purpose of a special arbitrage account generally should not exceed 30 to 60 days.

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The Legal Division proposed in its memorandum that Miller, Tallman & Company's inquiry should be answered along the lines of indicating that a period of from 30 to 60 days is a "reasonable time" in most cases. The reply would emphasize, however, that the specific circumstances of each case were controlling and that the instant inquiry citing the presently active Studebaker-Packard convertible bonds as an example, which bonds are not convertible until December 1960, did not involve a "reasonable time" under section 220.4(d)(2), since the time for actual conversion was more than a year away.

Vice Chairman Balderston asked for clarification as to the meaning of the statement in the Legal Division's memorandum that "a period of from 30 to 60 days would appear to be the maximum permissible," and Mr. Hackley replied that the meaning was not precise but that the objective of section 220.4(d) of Regulation T was to limit permissible exceptions from the regulation to those that could be regarded as true arbitrage in which the purchase and sale of the securities involved occurred almost simultaneously.

After further discussion relating to the concept of "true arbitrage," Mr. Farrell said the use by the New York Reserve Bank of a period of from 30 to 60 days in this connection probably arose from the fact that the most common arbitrage transaction in the securities market involved American Telephone and Telegraph debentures that were convertible into common stock to be issued within 30 to 60 days.

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On a question from Vice Chairman Balderston as to the reason for permitting special arbitrage accounts even in instances where only 30 to 60 days were required for the physical conversion of one security into another, Mr. Hackley replied that he supposed the reason for such a provision was to make possible a more orderly market in which "rights" and "when issued" securities could be bought and sold prior to the actual exchange.

There was some further discussion as to what period of time might be considered "reasonable" for excepting transactions of this nature from the regulation, during which there was general agreement that a period of more than a year, such as would be involved in the Studebaker-Packard convertible bonds, would not be reasonable. It was suggested that the draft letter to Miller, Tallman & Company, which Company was desirous of an early answer to its inquiry, be revised to indicate clearly that such a period would not be considered reasonable. It was also suggested that the subject of what constituted a reasonable period be studied further by the staff with a view to bringing it back for consideration at a later meeting.

These suggestions were approved unanimously, and a letter in the form attached to these minutes as Item No. 5 was sent to Miller, Tallman & Company under date of October 22, 1959.

Mr. Marget left the room during the foregoing discussion, and Mr. Farrell withdrew at this point.

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Letter from Mr. C. B. Stephenson, President of the First National Bank of Portland, Portland, Oregon, dated October 12, 1959 (Item No. 6).

At its meeting on September 8, 1959, the Board considered a letter to Chairman Martin from Mr. Stephenson requesting the designation of someone from the Board's staff to act as a panel member next April at a conference on the role of gold in the monetary system, at which time it was understood that the Chairman would suggest to Mr. Stephenson that perhaps the Treasury could make someone available from their Division of International Finance since "gold is primarily in their bailiwick." In a letter to the Chairman dated September 10, 1959, Mr. Stephenson reported the Treasury was unable to send anyone. In a subsequent letter of October 12, 1959, Mr. Stephenson reported that the chairman of the conference, Mr. Pierre Hines, had obtained Mr. Phillip Cortney, President of Coty, Inc., to be the luncheon speaker, that Mr. Cortney was a strong advocate of the full gold standard, and that both Mr. Hines and Mr. Cortney believed someone from the Board's staff might provide reasons why returning to the full gold standard would not be appropriate or wise.

Vice Chairman Balderston commented that he was reluctant to see the Federal Reserve engage in public debate with an individual who had become identified as a strong advocate of a particular position on gold.

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Governor Szymczak stated that he was even more doubtful than he had been before about sending a member of the Board's staff to the conference. As an alternative, it might be feasible for Mr. Stephenson to explore with the Federal Reserve Bank of San Francisco the question of making one of its staff economists available for the meeting without involving the System in an undesirable public debate on this subject.

Governor Shepardson felt that it would be equally undesirable for the Federal Reserve Bank of San Francisco to become involved, and Governor Robertson remarked that anyone whom the System designated would probably be described as speaking for the System on this question.

The discussion concluded with agreement that Vice Chairman Balderston would inform Mr. Stephenson that the Board was unable to make a staff member available for the purpose requested but that he might attempt to secure some qualified academic person to represent the viewpoint opposite Mr. Courtney's. A copy of the letter sent to Mr. Stephenson in accordance with this understanding is attached as Item No. 6.

Letter from Aubrey G. Lanston & Company, Inc., regarding Regulation R. Vice Chairman Balderston noted that a letter dated October 19, 1959, from Mr. C. Richard Youngdahl, Vice President of Aubrey G. Lanston & Company, Inc., raised again the question whether changes should be made in Regulation R, Relationships with Dealers in Securities Under Section 32 of the Banking Act of 1933, that would include

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certain additional obligations of Federal agencies in section 2 that exempts relationships with firms dealing only in certain types of obligations. Vice Chairman Balderston suggested that this item be included on the agenda for Friday's Board meeting when all members of the Board, with the exception of Chairman Martin, would be present.

Mr. Hackley said the letter from Mr. Youngdahl raised no new legal questions. However, the staff was assembling material that had been prepared in connection with the Board's review of Regulation R in the fall of 1958 and in February of this year, and such material would be made available to the members of the Board before the meeting on Friday.

Date for the Board's annual program for directors of Federal Reserve Banks. Governor Shepardson reported an inquiry from a Federal Reserve Bank as to the date of next year's meeting for new directors. He noted that this meeting ordinarily was held on a Thursday close to Washington's birthday and that it appeared that February 18 would be a suitable date in 1960.

It was thereupon agreed that a meeting for new directors would be held on February 18, 1960, with the customary dinner meeting to be given on the preceding evening, and that a letter to this effect should be sent to the Chairmen and Presidents of all Federal Reserve Banks.

Mr. Hexter then withdrew from the meeting.

The question of a meeting of Chairmen of Federal Reserve Banks to which branch chairmen would be invited. Upon a question from the

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Vice Chairman, Mr. Fauver reported that at a meeting of the Executive Committee of the Conference of Chairmen held at the Board on October 14, 1959, mention had been made of the possibility of holding a meeting of the Conference of Chairmen in the spring of 1960 to which branch chairmen would be invited. The Executive Committee preferred not to take the initiative in raising this question since on the two previous occasions when the Chairmen's Conference had suggested such a meeting, the Board had reached the conclusion that it would not be advisable to hold them. On these previous occasions, he added, a date in late April or early May had been proposed for such a meeting, which would involve a group of about 36 chairmen and branch chairmen combined.

Governor Shepardson expressed the view that benefits would result from a meeting to which the branch chairmen would be invited and that it might be preferable to dispense with some other meeting held at the Board than with one including this group. He suggested, however, that it would be desirable for the Board to consider whether it would favor such a meeting in the spring of 1960, adding that this might be done at a meeting soon after Chairman Martin had returned and in advance of the Chairmen's Conference scheduled for December 3 and 4, 1959. There was agreement with Governor Shepardson's suggestion.

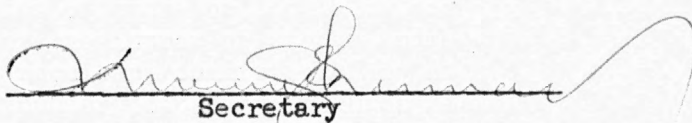
The meeting then adjourned.

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Secretary's Notes: On October 20, 1959, Governor Shepardson approved on behalf of the Board letters to the Federal Reserve Banks of New York and Dallas (attached Items 7 and 8) approving the appointment of Martin R. Stravitz and William J. Milusich at the New York Bank, and Charles L. Johnson at the Dallas Bank as assistant examiners.

Pursuant to the recommendations contained in a memorandum dated October 20, 1959, from Mr. Kelleher, Director, Division of Administrative Services, Governor Shepardson today approved on behalf of the Board the temporary appointment for three months of Fred H. Brown as Guard in that Division, with basic annual salary at the rate of \$3,255, effective the date he assumes his duties.


Secretary

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

Item No. 1
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1959.

Board of Directors,
Northwest Des Moines National Bank,
Des Moines, Iowa.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants Northwest Des Moines National Bank authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Iowa. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 2
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1959.

Board of Directors,
First National Bank of Fremont,
Fremont, Nebraska.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants First National Bank of Fremont authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Nebraska. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 21, 1959.

Board of Directors,
Alabama City Bank of Gadsden, Alabama,
Gadsden, Alabama.

Gentlemen:

The Federal Reserve Bank of Atlanta has forwarded to the Board of Governors your letter of October 2, 1959, and the accompanying copy of a resolution signifying your intention to withdraw from membership in the Federal Reserve System and a request for waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender, to the Federal Reserve Bank of Atlanta, of the Federal Reserve Bank stock issued to your institution, such stock will be cancelled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, as amended effective September 2, 1952, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be sent to the Federal Reserve Bank of Atlanta.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 4
10/21/59

October 21, 1959.

COOMBS - NEW YORK

Your wire October 15. Board approves extension of the arrangement to make loan or loans by your Bank to the Bank for International Settlements during a period of one year, from November 2, 1959, through October 31, 1960, up to a total amount outstanding at any one time of \$25,000,000, each borrowing to mature in not more than seven days and total borrowings (the maximum loan facility) during any calendar month not to exceed the equivalent of \$25,000,000 for the total of seven days.

For this facility, it is understood that you will make a commitment charge at the rate of one-fourth of one per cent per annum on that part of the maximum loan facility not used in any calendar month. The arrangement would conform to your usual terms and conditions:

- (A) Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you; and
- (B) Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman
SHERMAN

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

Item No. 5
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1959.



Mr. Philip Tallman, Vice President,
Miller, Tallman & Company,
231 South La Salle Street,
Chicago 4, Illinois.

Dear Mr. Tallman:

This is in reply to your letter of September 17, 1959,
relative to section 220.4(d) of Regulation T, a copy of which is
enclosed for your information.

Section 220.4(d) provides for "special arbitrage accounts"
and includes within the definition of arbitrage,

"(2) a purchase of a security which is, without restriction
other than the payment of money, exchangeable or convertible
within a reasonable time into a second security together
with an offsetting sale at or about the same time of such
second security, for the purpose of taking advantage of a
disparity in the prices of the two securities."

Your inquiry relates to the requirement therein that the security
must be "exchangeable or convertible within a reasonable time."
What constitutes a "reasonable time" might vary in different
situations.

A number of cases have arisen involving transactions under
section 220.4(d)(2) in which the security was to become convertible
within a month, or in some cases as much as six weeks or two months,
from the date of the arbitrage transaction. Section 220.4(d)(2)
appeared to be applicable in those instances because in the particular
circumstances, the "waiting period" seemed reasonable in view of the
underlying purpose of that provision. However, it is emphasized that,
in determining what is a "reasonable time" under section 220.4(d)(2),
every arbitrage transaction must be judged on its own circumstances,
so that the time periods mentioned above furnish only broad general
guidance. Situations might arise in which a "reasonable time" under
section 220.4(d)(2) might be more than 60 days.

Mr. Philip Tallman

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Your letter cites the presently active Studebaker-Packard Preferred as an example. In that case, the security would not be convertible until December 1960, a period of over a year. Under these circumstances, this period of time would not be considered a "reasonable time" within the meaning of section 220.4(d)(2) of Regulation T.

Should you have any further inquiries on this matter, you might find it more convenient to submit them to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
10/21/59

OFFICE OF THE VICE CHAIRMAN

October 21, 1959



Mr. C. B. Stephenson,
President,
The First National Bank of
Portland,
Portland 8, Oregon.

Dear Mr. Stephenson:

In Chairman Martin's absence, your letter of October 12 was referred to me. This morning, the Board had a further discussion of the regional conference of the Mining, Metallurgical, and Petroleum Engineers to be held next April.

The Board is quite conscious of the interest that this group would have in a discussion of the gold standard, but it does not feel that it can make a member of its staff available to participate in the conference.

Although we aren't in a position to furnish a speaker, the suggestion was made that you might be able to secure some person from the academic world who is especially qualified to speak on the topic of the conference and who might be available to serve as a member of the panel.

With all good wishes.

Sincerely yours,

A handwritten signature in cursive script, reading "C. Canby Balderston", is written above the typed name.

C. Canby Balderston,
Vice Chairman.

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

Item No. 7
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1959.

Mr. R. B. Wiltse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Wiltse:

In accordance with the request contained in your letter of October 15, 1959, the Board approves the appointments of Martin R. Stravitz and William J. Milusich as assistant examiners for the Federal Reserve Bank of New York. Please advise as to the dates on which the appointments are made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

Item No. 8
10/21/59

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 20, 1959.

Mr. L. G. Pondrom, Vice President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Pondrom:

In accordance with the request contained in your letter of October 14, 1959, the Board approves the appointment of Charles L. Johnson as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

