

Minutes for November 10, 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

WM

Gov. Szymczak

MS

Gov. Mills

MS

Gov. Robertson

RO

Gov. Balderston

CB

Gov. Shepardson

SS

Gov. King

SK

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

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

Mr. Sherman, Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Shay, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Marget, Director, Division of International  
Finance  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Noyes, Adviser, Division of Research and  
Statistics  
Mr. Furth, Associate Adviser, Division of Inter-  
national Finance  
Mr. Sprecher, Assistant Director, Division of  
Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Landry, Assistant to the Secretary  
Miss Hart, Assistant Counsel

Item distributed to the Board. The following item which had  
been distributed to the Board and a copy of which is attached to these  
minutes under the item number indicated was approved unanimously:

Item No.

Letter to St. Joseph Agency, Inc., South Bend,  
Indiana, regarding applications by St. Joseph  
Agency, Inc. and St. Joseph Bank and Trust  
Company for an additional extension of the  
period within which St. Joseph Agency may  
retain its general casualty insurance business  
pursuant to section 4(a) of the Bank Holding  
Company Act of 1956.

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Draft of letter to Senator Douglas (Item No. 2). There had been prepared and distributed three drafts of letters--two from Mr. Marget and one from Governor Mills--as possible replies to Senator Douglas' letter of October 30, 1959, regarding a proposal for revision of the International Monetary Fund made by Professor Robert Triffin of Yale University in a statement presented to the Joint Economic Committee in its public hearings Wednesday afternoon, October 28, 1959. Senator Douglas' letter indicated that the Committee had not had an opportunity to consider Professor Triffin's suggestion in detail and was not prepared to endorse his recommendations, but that a copy of the Triffin statement and the transcript of the day's hearing were being sent to the Board for its consideration and, hopefully, for its comments.

Chairman Martin expressed a preference for a short reply that would not give the impression that the Board might ultimately approve the Triffin proposal.

Mr. Marget then gave a summary of the replies that the Treasury and the International Monetary Fund had made to Senator Douglas in response to the same request, and, following further discussion, a letter to Senator Douglas in the form attached as Item No. 2 was unanimously approved.

Messrs. Shay, Marget, Noyes, and Furth then withdrew from the meeting.

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Litigation involving extensions of credit on Canadian securities.

A memorandum from Miss Hart had been distributed under date of November 6, 1959, informing the Board that a law suit, Kook vs. Crang, was pending in a Federal District court presenting to a court for the first time the issue whether Regulation T, Credit by Brokers, Dealers and Members of National Securities Exchanges, governs transactions involving extensions of credit to individuals in the United States for the purpose of purchasing or carrying Canadian securities. In this connection, it was pointed out that on July 25, 1956, the Board had informed Bache & Company, an American member of national securities exchanges, that such extensions of credit by that firm were subject to Regulation T even though handled entirely by mail or other means of communication between the customer and the firm's Toronto office. Since an adverse decision by the Federal District court in the instant law suit would tend to indicate that the interpretation given Bache was not correct, a question was presented as to whether it would be advisable and appropriate for the Board to file a brief as amicus curiae in the matter of Kook vs. Crang setting forth the arguments that supported the position taken by the Board. While the Securities and Exchange Commission had not made a formal request that the Board file a brief, counsel for the Securities and Exchange Commission had informally expressed hope the Board would intervene, and Legal was presenting the matter to the Board at this stage in order to avoid a formal refusal in the event the Board did not wish to intervene.



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Governor Mills inquired whether criminal violations of the Securities and Exchange Act of 1934 should be reported to the Securities and Exchange Commission or the Justice Department for court action, and Mr. Solomon replied reports could be made to either of these agencies or both; ordinarily, criminal violations should be reported to the Justice Department, and civil violations for which an injunction might be sought would go to the Securities and Exchange Commission which was authorized to obtain such injunctions.

Governor Mills then suggested that the Board was in a middle position where this action was concerned since it promulgated regulations in this area and, in a sense, enforced these regulations through the bank examination process and through information obtained from dealers. Therefore, he asked, could the Board logically refuse to be a "friend of the court" in the pending law suit of Kook vs. Crang, in which case relevant papers had been sent to the Board by counsel for Securities and Exchange Commission with the informally expressed hope that the Board would intervene.

Miss Hart pointed out that there were certain legal questions involved in the law suit: (1) whether the Board's 1956 interpretation took the correct position, and (2) whether it was appropriate for the Board to file a brief as amicus curiae before a court which was seeking to determine the correctness of that position. She said that in a

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memorandum to the Board dated July 9, 1956, the Legal Division pointed out that a firm which was a "creditor" subject to the Securities and Exchange Act of 1934 and Regulation T (the position of J. H. Crang & Co.), might not extend credit on unregistered securities unless the transactions in question were exempted from the Act and Regulation by virtue of section 30(b) of the Act, the section which exempts "any person insofar as he transacts a business in securities without the jurisdiction of the United States, unless he transacts such business in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate to prevent the evasion of" the Statute. However, in a letter commenting on the Bache situation dated May 16, 1956, the Securities and Exchange Commission took the view that "Bache would be transacting business in the United States in connection with such [Canadian] transactions and that the exemptions provided by section 30(b) would be unavailable." In the 1956 memorandum, the Legal Division stated that while this view "is one on which opinions may differ, it is believed that strong arguments can be made in support of the Commission's position." Miss Hart went on to say that since the Securities and Exchange Commission was charged with the duty of enforcing the Regulation and the underlying Statute and, since the policy questions involved fell within the province of the Securities and Exchange Commission rather than the Board, she recommended that the

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staff indicate informally to the staff of the Securities and Exchange Commission that the Board would not be prepared to file a brief as amicus curiae but that it would, if the Securities and Exchange Commission so requested, direct its staff to render what assistance it could to the staff of the Commission.

A brief discussion followed, during the course of which Governor Balderston inquired whether Canadian or American credit was involved in the case of Kook vs. Crang. Miss Hart responded that American credit was involved in only a very secondary sense. Credit was extended to an American citizen while in the United States, and in that sense reached him here. However, members of the staff felt that by and large such credit did not affect the Board's interest directly. The principal extension was in Canada because the credit was used in Canada on a Canadian exchange for the purchase of Canadian securities.

It was then decided to follow the recommendation of the Legal Division to indicate informally to counsel for the Securities and Exchange Commission that the Board would not be prepared to file a brief in the case of Kook vs. Crang, but that it would direct its staff to render whatever assistance it could to the staff of the Securities and Exchange Commission in this connection should the Commission so request.



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Messrs. Riefler, Hexter, and Fauver and Miss Hart then withdrew from the room

Letter from President Johns of the Federal Reserve Bank of St. Louis. At its meeting on November 9, 1959, the Board had considered a letter dated November 5, 1959, from President Johns of the Federal Reserve Bank of St. Louis and indicated it was prepared to approve the appointment of Mr. Darryl R. Francis to the office of First Vice President effective December 1, 1959, at a salary of \$22,000 per annum, if such action were taken by the Board of Directors of that Bank. Mr. Johns' letter also had outlined his plans for changes in the official staff of the Memphis Branch.

Governor Balderston indicated that since he planned to meet with the directors of the St. Louis Bank tomorrow, it would be helpful to him to have any views that the members of the Board cared to express regarding the proposed changes in the staff of the Memphis Branch.

After Mr. Johnson had commented on the proposed changes at Memphis, Governor King stated that he understood the Board's authority in connection with appointments such as this was limited to the approval of the salary for the individuals concerned and not their appointment. He understood that under the statute the Board had authority and responsibility to approve the appointment of the President, the First Vice President, and examiners, as well as their salaries. His reason



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for commenting, he said, was that he wished to make it clear that he did not intend to encroach upon the authority of the directors of the Federal Reserve Banks when it came to the selection of persons for positions within those Banks. His general approach was that he was much interested in getting a good man to head up a Reserve Bank and then holding him responsible for its management. For this reason, he questioned whether there was any purpose in the Board's listening to comments on the qualifications of individuals being proposed for appointments at the Memphis Branch. While he was interested in general in knowing about individuals, he did not think that the Board's responsibility called for a judgment on its part as to whether the individuals were qualified for the jobs but rather as to whether the salaries proposed for them were appropriate.

Chairman Martin said that he thought Governor King had brought out a very real point. His view was that it was futile for the Board to attempt to deal with the qualifications of individuals other than the President and First Vice President at a Reserve Bank. While a Board member might know some of the others in the Banks, it was impossible in his view for the members of the Board to know the Banks in a way that gave a basis for judging whether the selections by the Banks should be approved. These selections were a management function. Obviously, if

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the Board believed that it could prevent malfeasance in a given case it would be justified in not approving a salary proposed by the directors of the Federal Reserve Bank, but he questioned whether the Board could, or should, apply its authority for approval of salaries as a means of preventing the appointment of persons at a Reserve Bank.

Governors Robertson and Balderston indicated concurrence with the foregoing view.

Governor Mills stated that he did not think the Board could overlook its statutory responsibility for general supervision of the Federal Reserve Banks. If an appointment were being made by the directors of a Reserve Bank and the Board felt that it should not approve the payment of salary because the individual should not be identified with the Federal Reserve System, he judged that the Board would have an obligation to follow that judgment. However, his position was in agreement with the views expressed by the Chairman.

Governor King stated that he wished to be on record that in so far as the individuals proposed for the Memphis Branch appointments were concerned, he was not attempting to pass judgment on whether they were good enough for the jobs. His view was that the directors of the Reserve Bank should have this responsibility and that the Board would do well not to take away from the directors any responsibility that they had and which he hoped they would maintain.

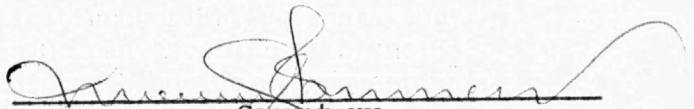
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All members of the staff with the exception of Mr. Sherman then withdrew from the meeting.

Governor Mills reported on his telephone conversation with Chairman Brawner at the Federal Reserve Bank of San Francisco regarding individuals who might be appointed to succeed Mr. Brawner as a Class C director and Chairman at the end of this year. Governor Mills stated that he expected to have a definite recommendation to present to the Board within a day or two.

The meeting then adjourned.

  
Secretary

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

Item No. 1  
11/10/59

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 10, 1959



Mr. Paul M. LaMar, President,  
St. Joseph Agency, Inc.,  
St. Joseph Bank Building,  
South Bend 1, Indiana.

Dear Mr. LaMar:

This refers to the applications of St. Joseph Agency, Inc. and St. Joseph Bank and Trust Company, relating to the operation of a general casualty insurance business, requesting a further extension of time within which St. Joseph Agency, Inc. may retain its general casualty insurance business.

Pursuant to the provisions of section 4(a) of the Bank Holding Company Act of 1956, the Board hereby grants an additional extension of time to March 9, 1960, for the retention by St. Joseph Agency, Inc. of its general casualty insurance business.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
11/10/59

OFFICE OF THE CHAIRMAN

November 12, 1959

The Honorable Paul H. Douglas,  
Chairman,  
Joint Economic Committee,  
Congress of the United States,  
Washington 25, D. C.

Dear Mr. Chairman:

The Board of Governors is grateful to the Joint Economic Committee for transmitting with your letter of October 30 a copy of Professor Robert Triffin's statement before the Committee and the transcript of the Hearings for the day when Professor Triffin's suggestion was considered by the Committee.

The Board's Staff has had under continuous study the problems with which Professor Triffin's suggestion is intended to deal, and of course will continue its studies in this field. We appreciate your making this material available to us so promptly.

Sincerely yours,

Wm. McC. Martin, Jr.