

Minutes for January 8, 1960.

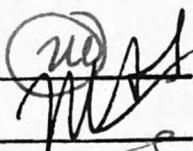
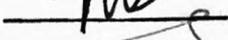
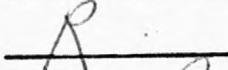
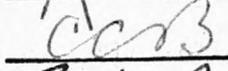
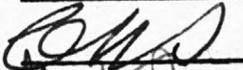
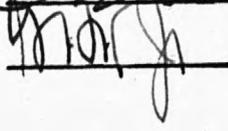
To: Members of the Board

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	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, January 8, 1960. 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. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Shay, Legislative Counsel  
Mr. Molony, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Chase, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Masters, Associate Director, Division of Examinations  
Mr. Nelson, Assistant Director, Division of Examinations  
Miss Hart, Assistant Counsel

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on January 7, 1960, 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 to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

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Item No.

- Letter to the Federal Reserve Bank of Boston approving the payment of salary at a rate below the grade minimum to an employee in the Fiscal Agency Department for a period not exceeding six months from January 1, 1960. 1
- Letter to Morgan Guaranty Trust Company of New York, New York City, authorizing the establishment of an additional branch in London, England. 2
- Letter to Kalmark Corporation, Huntington, New York, exempting it from all "holding company affiliate" requirements except Section 23A of the Federal Reserve Act. 3

Mr. Johnson withdrew after action was taken on Item No. 1.

Request of Justice Department to be notified of holding company applications. There had been circulated to the Board under date of November 25, 1959, a memorandum from Mr. Hexter concerning a request from the Justice Department dated November 17, 1959, to be informed of the filing of all applications for approval of the acquisition of bank stocks under the Bank Holding Company Act. The memorandum stated that since early 1959 it had been the practice of the Board to send the Justice Department a copy of each Notice of Tentative Decision on bank holding company applications, thereby assisting that Department to discharge its responsibilities under antitrust laws, and there appeared to be little basis for refusing the Department's request to be informed of each application at an earlier stage. It also noted that every acquisition of bank stock by another corporation raised the possibility of a violation of section 7 of the Clayton Act which prohibits such stock

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acquisitions if the effect "may be substantially to lessen competition, or to tend to create a monopoly." In the field of banking, enforcement of the Clayton Act is vested concurrently in the Board of Governors (section 11 of Act) and in the Department of Justice (section 15).

Mr. Hackley called attention to the fact that Tentative Decisions on bank holding company applications involve published information, whereas advice concerning the receipt of applications would involve unpublished material. The Department of Justice was of the opinion that information concerning the filing of applications was needed in connection with its duties under the antitrust laws, however, and notice that an application had been received would be in accordance with the Board's Rules of Organization. These Rules provide in section 7(b) that the Board may make available to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, certain other agencies of the United States, and any authority having general supervision of a State bank, copies of reports of examination and other information, for use where necessary in the performance of their official duties, provided such reports or information shall remain the property of the Board and shall not be made public in such detail as to disclose the affairs of any person.

Governor King said he had no objection to permitting the Department of Justice to examine applications when they were received, but he wondered just what the mechanics of making them available would be. He felt that the Board's staff should be free to study and deliberate on the

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applications without any possibility of influence by conversations with representatives of Justice regarding them.

Mr. Hackley replied that, in the past when representatives of the Justice Department had been given permission to inspect papers, members of their staff spent only a short time at the Board making what appeared to be a perfunctory examination of the material. So far as he knew, there were no conversations with members of the Board's staff regarding the matters reviewed.

After Governor King said that it might be difficult for outsiders to feel sure that applications were not discussed by representatives of the Justice Department and members of the Board's staff, Governor Robertson suggested that this might be taken care of by making the applications available through the Secretary's Office rather than by the office having responsibility for making a recommendation to the Board regarding the matter.

Mr. Hackley said there was little reason from the legal standpoint for refusing the request of the Justice Department. He recalled, however, that at least one holding company (Transamerica) had been advised that no publicity would be given to the filing of applications to acquire bank stock. The suggested change in procedure would be a surprise to this company, Mr. Hackley said, although he did not think there would be a legal basis for complaint since the Board's Rules provided for such disclosure.

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Governor Mills said that he would like to advance a lay opinion completely contrary to that expressed by Mr. Hackley. Under the Bank Holding Company Act, he said, the Board of Governors has exclusive responsibility for administration of bank holding company problems. There was a concurrent responsibility between the Department of Justice and the Board of Governors under section 7 of the Clayton Act, but, he said, there seemed no sound reason to confuse the two relationships in this particular area. He said that the administration of the Bank Holding Company Act was concerned with expansion of bank holding companies; the Clayton Act had to do with acquisitions of banks through the purchase of shares.

Governor Mills said he considered the two problems separate and apart. He indicated that the Board's exclusive responsibility under the Bank Holding Company Act was well known to bank holding companies. Also, he noted, these companies had been fully advised that the Justice Department had a corresponding responsibility under the Clayton Antitrust Act. If a bank holding company had any doubt as to whether a decision of the Board would be approved or disputed by the Department of Justice, it could, at the time of making application to the Board for permission to expand, ask that Department to review its application and furnish an opinion. If a holding company did not take this action, Governor Mills felt that the responsibility belonged completely to the Board and that the Board would be in default if it admitted the Department of Justice to a joint responsibility in considering such applications. Mr. Hackley had mentioned legal reasons supporting the request from the Justice Department, but in Governor Mills' judgment this would stretch the spirit

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of cooperation out of context. The Board, he said, would be abdicating authority to another department of Government which Congress did not expect or ask of the Board. Governor Mills referred to bank merger bills pending in Congress which would vest this generally related responsibility with the bank supervisory agencies. If the Board should comply with the Justice Department's request in this case, Governor Mills said he thought that it would be prelegislating in an area where it had no right to tread. He pointed out that, if the Department of Justice were permitted to review applications for holding company expansion in advance of a decision by the Board, the Board would have a distinct obligation to amend Regulation Y and to give public notice that the applications made to the Board by bank holding companies would, upon submission to the Board, also be made available for scrutiny by the Department of Justice. Also, he said, the Board would have a clear obligation to notify both Federal and State bank supervisory agencies that the opinions which they furnish the Board before Tentative Decisions are published on holding company applications would be made available to the Justice Department. For the reasons stated, Governor Mills said he would turn down the Justice Department's request.

Governor Shepardson inquired as to the significance of the two different working procedures outlined in the following excerpt from Mr. Hexter's November 25, 1959, memorandum:

As indicated above, the Board and the Justice Department have concurrent Clayton Act jurisdiction in the field of

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banking. Similarly, the Federal Trade Commission and the Justice Department have concurrent jurisdiction in the general business field. It appears to have been the general policy of the Department of Justice not to make antitrust investigations of situations that were being dealt with by the FTC, but rather to rely upon the FTC's judgment as to whether a Clayton Act proceeding is called for. Apparently the Justice Department is adopting a different position vis-a-vis the Board of Governors. The reason for these different procedures in essentially parallel situations is not clear, but in view of the Justice Department's jurisdiction in this area, the Board would not seem justified in refusing the Department's request simply because a similar request has not been addressed to the FTC or other Clayton Act enforcement agencies.

Mr. Hexter replied that the reasons for the different procedures were not clear. He pointed out that the Federal Trade Commission and the Department of Justice have an informal working agreement by which one or the other makes antitrust investigations of situations in the general business field. The Board of Governors and the Department of Justice have a concurrent Clayton Act jurisdiction in the field of banking. However, there is no working relation between the Justice Department and the Board in handling Clayton Act matters similar to that followed by the Justice Department and Federal Trade Commission in the general business area. Mr. Hexter pointed out that the Justice Department is interested in pending bank merger bills and said it was possible the refusal of the Board to comply with their request might place the Justice Department in a stronger position in this controversial field.

Governor Shepardson observed that applications for acquisition of bank stock are filed under the Bank Holding Company Act where the

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Board has sole jurisdiction. In view of this, he asked where the joint jurisdiction with the Justice Department came into the picture.

Mr. Hackley replied that the Bank Holding Company Act provides the answer. By the terms of section 11, no approval of an application under the Bank Holding Company Act would oust jurisdiction of the Department of Justice or the Board under the antitrust laws.

Mr. Hackley called attention to the next item on the agenda relating to a request from the Justice Department for information regarding a merger of banks in the Pittsburgh, Pennsylvania, area. He understood that somewhat earlier the Comptroller of the Currency had received from the Department of Justice a request that they advise that department in the future with respect to mergers approved by the Comptroller's Office. Mr. Hackley assumed that possibly Mr. Gidney had called Chairman Martin in November in connection with such a letter from Justice. He did not believe that the Comptroller would have received a letter similar to that addressed to the Board under date of November 17 which had to do with acquisitions under the Bank Holding Company Act.

Chairman Martin said that he could see no reason for not cooperating with the Department of Justice by informing them of the filing of applications for the approval of acquisition of bank stocks. He did not know whether it would be desirable to publish in the Federal

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Register a notice of any decision to change the present procedure, but he had no objection to letting anybody know the applications were being made available to Justice.

Mr. Hexter commented that on occasion the Board's files had been made available to other Government agencies to assist them in performing their duties--Internal Revenue Service, for example. If the Board published in the Federal Register its plan to notify the Department of Justice when applications for approval of the acquisition of stock were received, he wondered whether in order to be consistent the Board might wish to publish notices concerning availability of its records to agencies in other areas.

Chairman Martin replied that the current request from the Justice Department applied specifically to the Bank Holding Company Act. He felt that public notice in this area would not interfere with arrangements in other areas.

Governor Robertson indicated that he would have no objection to Chairman Martin's conclusion, although he thought adequate notice was already provided in the Board's Rules of Organization.

Governor Mills suggested that the Board should bear in mind that the Justice Department was a punitive branch of the Government and, if the Board should advise that Department of applications to purchase stock before the Board reached a Tentative Decision, the inference might be that the applications were contrary to the public interest.

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Chairman Martin then suggested that further discussion of the Justice Department's request be deferred until after he had had an opportunity to talk further with Mr. Gidney regarding this subject.

Request of Justice Department to examine records on mergers.

There had been distributed a letter dated December 18, 1959, from the Department of Justice indicating that the Antitrust Division was studying competitive problems that might result from an increase in the concentration of ownership and control of banking activities in the Pittsburgh, Pennsylvania, area by reason of mergers, consolidations, and acquisitions. The letter requested that representatives of the Antitrust Division be permitted to examine the following material for the period 1945 to date regarding activities of Peoples First National Bank & Trust Company, Mellon National Bank & Trust Company, and Fidelity Trust Company:

(a) applications or other information filed in connection with proposed acquisitions, consolidations, or mergers of or by these banks with other banking institutions,

(b) rulings, determinations, and opinions of the Board in connection with the proposed acquisitions, consolidations, and mergers referred to in (a) above.

The letter also requested that Antitrust Division representatives be given the opportunity of reviewing additional information relating to (1) these particular banks, (2) competition in the banking field in the Pittsburgh area, or (3) competition between these Pittsburgh banks and banking institutions in other parts of the nation.

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Mr. Solomon said that the Board's records contained little information regarding (a) and (b); two of the banks were national associations and under the supervision of the Comptroller of the Currency and, accordingly, applications involving acquisition of other institutions by these banks would not be subject to Board approval. The third bank (Fidelity Trust Company) was a State member bank from 1954 until September 1959, when it was consolidated with Peoples First National Bank and Trust Company under the charter of the latter and the new title of Pittsburgh National Bank. If the Board wished to do so, it would be a relatively simple matter to make available information relating to applications by Fidelity to establish certain branches while it was a member. Mr. Solomon added that it was not clear what type of material was desired in response to the latter portion of the Justice Department's request. If, in addition to examination reports, it referred to internal staff memoranda, there might be considerable question as to whether the latter should be made available.

Following a question from Chairman Martin as to what precedent existed for complying with the request, Governor Mills recalled that the Board had released to the Justice Department matters of record relating to Firstamerica Corporation but it did not submit the opinions or reasonings of the staff on which the Board's decision was reached. After Mr. Solomon noted that the Firstamerica case involved a public hearing

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on which there was a large volume of published information, whereas the current request did not involve published information, Governor Mills said that he did not have the same strong feelings about matters that were history that he held regarding matters that were current and pending. He would not object to making available the limited material referred to regarding the Pittsburgh banks.

Governor Robertson suggested that an appropriate response to the letter might be to say that mergers were not ordinarily subject to Board approval, that although the Board had some applications for establishment of branches they did not seem to fall under the request of Justice, and that they were therefore not being submitted at this time. As to the latter portion of the request, he would indicate that in the absence of further delineation of what was desired, the Board did not feel it had anything to submit.

After further discussion, the staff was requested to prepare a draft of letter along the lines of Governor Robertson's suggestion for consideration by the Board.

Application of section 8 of the Clayton Act and Regulation L (Items 4, 5, and 6). Under date of November 19, 1959, the Board sent a letter to all Reserve Banks asking for their views as to a question arising under section 8 of the Clayton Act and Regulation L, Interlocking Bank Directorates. The letter pointed out that section 8 provided that a director, officer, or employee of a member bank shall not be at the same time a director, officer, or employee of any other

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bank, with certain exceptions, one of the exceptions being a bank not located in the same city, town, or village as that in which the member bank is located, or in any city, town, or village "contiguous or adjacent" thereto. Footnote 8 in Regulation L explains that "contiguous" refers to cities, towns, and villages whose corporate limits touch or coincide at some point, and that "adjacent" refers to cities, towns, or villages which though not actually "contiguous" within the above interpretation of that word, "are located in such close proximity and are so readily accessible to each other as to be in practical effect a single city, town, or village, as for example, cities, towns, or villages separated only by a water-course, or a suburb of a city separated from that city by an intervening suburb." The Reserve Banks were asked for their comments (a) as to whether a change in the regulation or the interpretation should be made and, if so, (b) whether the change should authorize dual service for two banks located in the same city, (c) whether "metropolitan area" should be defined as an area having a population of, say, one million, (d) whether it would be feasible to specify a minimum distance in miles between the nearest offices of two banks, and (e) whether the change, if made, should be made by an amendment to the regulation, by a published ruling, or merely by a letter of instructions to the Federal Reserve Banks.

The replies of the Reserve Banks were summarized and attached to a memorandum from Mr. Chase dated December 18, 1959, which was distributed to the Board. The memorandum indicated that seven of the Banks were opposed

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to any change. The five Banks which favored a change were Boston, which had in mind particularly personnel of city banks in Boston serving banks in neighboring suburban communities in which they made their homes; New York, where the problem was most apparent in view of the great size of New York City and the great distances which sometimes exist between banks in the metropolitan area; Richmond, which has had some similar situations; Kansas City, which discussed the change more on the basis of how it should be accomplished than on the question of whether it should be done; and San Francisco, which regarded the proposed change as desirable since there had been several cases of recent date in which the existing rules produced unreasonable results.

It was pointed out in the memorandum that there were arguments either for taking no action or for amending Regulation L in some manner so as to permit dual service in banks located more than a certain distance apart even though in contiguous or adjacent places. In support of not amending Regulation L, the following reasons were given in the memorandum:

- (1) The present regulation has caused no difficulty in this respect except in one or two cases in New York City and possibly in a few other instances in other Reserve districts;
- (2) A majority of the Reserve Banks feel that no change should be made; and
- (3) It is difficult to draft an appropriate exception to the regulation which would contain objective standards and yet avoid the possibility of defeating the purposes of the law.

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On the other hand, the memorandum indicated that the purpose of the law was to prevent interlocking relationships between competing banks and it was noted that the present regulation had produced harsh results in some situations where the banks involved were clearly not in competition.

Mr. Chase said that this question arose early last year in connection with Mr. Sidney Friedman, a director of Meadow Brook National Bank of Nassau County, West Hempstead, New York, and of Commercial Bank of North America, New York City (first discussed at the Board meeting on February 19, 1959). After discussing replies of the Reserve Banks, Mr. Chase indicated that the question being considered was one of policy.

Chairman Martin said it was his impression that it would be preferable to make no change at this time. Mr. Hackley indicated that the Legal Division would be willing to go along with this line of thought, having in mind that the harsh results the present regulation produced in some instances such as the Friedman case would be preferable to the administrative problems involved in any change.

Governor King said he felt that nothing harsh was involved in the Friedman case. After commenting on the matter, he requested that a memorandum which he had prepared relating to this case be attached to the minutes (Item No. 4).

Governor Robertson said he felt it would be better to make no change and to consider the few cases that would arise, rather than to

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amend Regulation L and risk having many more cases as a result of a new provision.

It was then agreed unanimously to make no change in Regulation L or to issue any rulings or instructions changing the effect of the words "contiguous or adjacent" when applied to interlocking relationships in a large metropolitan area. This action was taken with the understanding that appropriate advice would be sent to all Reserve Banks and that the Federal Reserve Bank of New York would be informed that Mr. Friedman's services as a director of the Meadow Brook National Bank of Nassau County, West Hempstead, New York, and as a director of the Commercial Bank of North America, New York City, were prohibited under the Clayton Act. Copies of the letters sent on January 12, 1960, are attached as Items 5 and 6.

Interlocking bank directorates under the Clayton Act (Item No. 7). Under date of January 7, 1960, there was distributed a memorandum from Mr. Chase concerning an inquiry from Mr. Ross L. Hudson, President of The National City Bank of Denver, asking whether the Clayton Act would prevent the service of his son, Mr. Robert K. Hudson, as director of The National City Bank of Denver in view of the fact that he was already a director and officer of the Jefferson County Bank in Lakewood. As noted in the memorandum, Mr. Hudson had been advised by Vice President Woolley, of the Kansas City Reserve Bank, that in his opinion the Clayton Act and Regulation L would not permit such service.

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Mr. Hudson then directed a letter to Mr. Puckett of the Federal Reserve Bank of Kansas City at the Denver Branch, with copies to Chairman Martin and Governor Balderston, asking that the matter be reconsidered.

Mr. Chase's memorandum pointed out that, after checking the facts with Mr. Clay, General Counsel of the Kansas City Reserve Bank, it appeared that Mr. Woolley's answer was correct. Under section 8 of the Clayton Act, it is unlawful for a director of a member bank to serve as a director of another bank located in the same city, town, or village, or in a city, town, or village "contiguous or adjacent thereto." The national bank in this instance was situated in Denver and the other bank in an unincorporated area about two miles from the corporate limits of Denver. The intervening area was entirely built up and, consistent with the position the Board had taken in other cases, the bank would be regarded as located in an area "adjacent" to Denver. A draft letter advising Mr. Hudson that the relationship suggested would not be permissible was attached to Mr. Chase's memorandum.

In commenting on the case, Mr. Chase observed that the reason for making the son a director of The National City Bank of Denver was to enable him to become familiar with the affairs of the bank prior to his father's retirement. Mr. Chase expressed the thought that there were other ways of accomplishing this without making the son a director, and there followed a brief discussion of how this might be arranged.

Thereupon, unanimous approval was given to a letter, a copy of which is attached to these minutes as Item No. 7, informing Mr. Hudson

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that the dual service by his son as a director of the two banks referred to in his letter of January 7, 1960, was prohibited by the Clayton Act.

Messrs. Chase and O'Connell and Miss Hart then withdrew from the meeting.

Valley Bank and Trust Company, Des Moines, Iowa (Item No. 8).

At the meeting on January 7, 1960, the Board approved a letter to Vice President Diercks of the Chicago Reserve Bank, indicating that the Board would not be inclined to impose a special condition of membership relative to the investment composition of the profit-sharing trust maintained by the Valley Bank and Trust Company, Des Moines, Iowa. It was understood that, if further discussion among the staff should seem to make a revision of this letter desirable, it would be brought back to the Board for approval.

On the basis of later discussion by members of the staff, Mr. Masters prepared a memorandum, dated January 8, 1960, and a redraft of letter to the Valley Bank and Trust Company which would reflect the concern of the Board, other bank supervisory agencies, and the Congress regarding investment concentrations in employee benefit trusts. The revised letter would hint at the possibility of legislation imposing restrictions on such investments and refer to the undesirability of attempting to deal with this question in individual cases through the medium of conditions of membership. The memorandum indicated that

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consideration had also been given by the staff to the suggestion that the Reserve Bank seek to obtain, either presently or incident to processing a membership application, an informal understanding with the Valley Bank management concerning future improvement in the investment composition of the trust. It was the staff view that this approach should not be followed, the rationale being that, if the bank were unwilling to support the suggested changes, the Board not only would have failed to obtain any agreement on improvement in the investment composition of the trust, but it would also not be able to withdraw from its position that a special condition of membership should not be imposed.

After Mr. Masters discussed the letter, Governor Robertson remarked that he felt much better about sending the letter in its revised form. He commented that the question under consideration should be a matter for legislation.

Unanimous approval was then given the letter to Vice President Diercks, indicating that the Board would not be inclined to impose a special condition of membership on the Valley Bank and Trust Company. A copy of the letter is attached as Item No. 8.

Messrs. Hexter and Nelson then withdrew from the meeting.

Disclosure of finance charges in connection with extensions of consumer credit. At Chairman Martin's request, Mr. Shay reported concerning a draft of bill requiring disclosure of finance charges in

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connection with extensions of consumer credit. Mr. Shay referred to an article in the January 6 Wall Street Journal which indicated that Senator Douglas of Illinois was expected to introduce a bill requiring lenders to inform consumer borrowers of the total finance charges and interest rates they pay. Sometime earlier Mr. Shay had learned from the Senate Banking and Currency Committee staff that Senator Douglas was thinking about such a bill. At the request of the Committee staff, Mr. Benner and Mr. Pawley of the Board's staff furnished technical assistance to those preparing a draft of the bill. Mr. Shay had with him a tentative draft of the bill and quoted the following section from it:

Sec. 3. Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended, prior to the consummation of the transaction, a clear statement in writing, in accordance with rules and regulations which the Board of Governors of the Federal Reserve System shall prescribe, (1) setting forth the total amount of the finance charges to be borne by such person in connection with such extension of credit, and (2) stating the percentage that such amount bears to the outstanding principal obligation, or unpaid balance, expressed in terms of simple annual interest.

He noted that the stated purpose of the proposed bill was to assist production and promote economic stability, and he said that Senator Douglas wished to have the Senate Banking and Currency Committee report on the bill.

Chairman Martin noted that Senator Bush of Connecticut had called that morning about the bill and said he would call again later. Chairman Martin indicated that Senator Bush was favorably inclined toward the bill.

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In the discussion that followed, it was brought out that the proposed bill was closely related to the Federal Trade Commission fair trade practices regulations which among other things required disclosure of finance charges and interest rates in connection with the financing of automobiles. It was suggested, accordingly, that it would be appropriate for the Federal Trade Commission to have responsibility in this field.

Governor Robertson said he would have no objection to the principles involved in the bill but commented that it was a far cry from anything in Federal Reserve competence. The bill, he said, involved fair trade practices and nothing else. Mr. Shay said that this was the position which he had taken in discussing the proposed bill with the Senate Banking and Currency Committee staff.

Governor Mills stated that if Regulation W should be revived and the Board were given responsibility for its administration, there would be a tendency to tie together Regulation W and the requirement for disclosure of finance charges. Mr. Shay noted that when Regulation W was in effect the Board had a Statement of Transaction which required that certain information be disclosed. At that time, he said, the Board was under pressure to require full disclosure but that was never done.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions affecting the Board's staff:

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Appointment

Charles Wallace Wood as Personnel Technician in the Division of Personnel Administration, with basic annual salary at the rate of \$5,985, effective the date he assumes his duties.

Salary increases in the Division of Research and Statistics, effective January 10, 1960:

William J. Smith, Jr., Economist, from \$7,510 to \$8,330 per annum.

Alvern H. Sutherland, Chief Librarian, from \$9,530 to \$9,890 per annum.

Edwin J. Swindler, Economist, from \$7,270 to \$8,330 per annum.

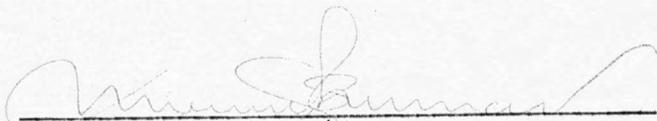
Acceptance of resignation

Nathan B. Hughes, Jr., Personnel Technician, Division of Personnel Administration, effective January 10, 1960.

Governor Shepardson also noted today the applications of the following persons for retirement:

Charles H. Bartz, Federal Reserve Examiner, Division of Examinations, effective December 31, 1959.

Lela Wilson, Cafeteria Helper, Division of Administrative Services, effective December 31, 1959.

  
Secretary

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

Item No. 1  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1960

CONFIDENTIAL (FR)

Mr. Richard A. Walker,  
Assistant Cashier,  
Federal Reserve Bank of Boston,  
Boston 6, Massachusetts.

Dear Mr. Walker:

In view of the circumstances described in your letter of December 22, 1959, the Board of Governors approves the continuation of the payment of salary to Mr. Richard T. Burns as Registered Bond Examiner, Fiscal Agency Department, salary grade 8, for a period not to exceed six months from January 1, 1960, at the rate of \$4,000 per annum, which is \$120 below the minimum of the grade in which his job is classified.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1960

Morgan Guaranty Trust Company  
of New York,  
140 Broadway,  
New York 15, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes Morgan Guaranty Trust Company of New York, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish an additional branch in London, England, to be located at 29/30 Berkeley Square, London, and to operate and maintain such branch subject to the provisions of such Sections. The location of the branch may not be changed, either before or after establishment, without the prior approval of the Board of Governors.

Unless the branch is actually established and opened for business on or before January 1, 1961, all rights granted hereby will be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

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. 3  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1960

Mr. William R. Geiler,  
Brenner & Geiler,  
48 Elm Street,  
Huntington, New York.

Dear Mr. Geiler:

This refers to your request, submitted through the Federal Reserve Bank of New York, for a determination by the Board of Governors of the Federal Reserve System as to the status of Kalmark Corporation as a holding company affiliate.

From the information submitted, the Board understands that Kalmark Corporation was organized for the specific purpose of purchasing and holding capital stock of The First National Bank of Greenport, Greenport, New York, and presently holds 648 of the 1,000 outstanding shares of common stock of such bank; that Kalmark Corporation is presently engaged in no other activities and has practically no assets other than stock of The First National Bank of Greenport; and that Kalmark Corporation does not, directly or indirectly, own or control, any stock of, or manage or control, any banking institution other than The First National Bank of Greenport.

In view of these facts the Board has determined that Kalmark Corporation is not engaged, directly or indirectly, as a business in holding the stock of or managing or controlling banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Kalmark Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.



Mr. William R. Geiler

If, however, the facts should at any time indicate that Kalmark Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 4  
1/8/60

Subject: Service of Mr. Friedman as director of two banks  
in New York area.

I am inclined to wonder, first, whether there is anything of substance to be gained if the Board should approve Mr. Friedman's service on both bank boards, and, secondly, whether the service that Mr. Friedman renders to what he would consider the lesser of the two banks is great enough to influence the Board to depart from a strict interpretation of the statute involved. In my judgment, I do not believe that the public interest would be so much better served by Mr. Friedman's service on the second board that we would be justified in approving his service on both boards.

If our disapproval would produce a result detrimental to the "public interest," then I suggest remedial legislation is the proper way to approach the matter. Frankly, I do not believe that disapproval would produce a result detrimental to the public interest or that we would be carrying the interpretation to "logically untenable extremes" as stated in Mr. Wiltse's letter of October 22, 1959.

In regard to the Deyerburg case, I am not sure the Board reached the right decision, and I would not object to reversing that position. I would attach special importance to the views of the Board's General Counsel at the time the Deyerburg case was considered. His concern over the unfairness to those who governed their actions to a strict interpretation of the regulations without knowing the Board was prepared to depart from a strict interpretation is a factor of great weight.

G.H. King, Jr.  
11-13-59

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

Item No. 5  
1/8/60



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 12, 1960.

Dear Sir:

Under date of November 19, 1959, the Board asked for your views as to whether there should be any change in Regulation L or the rulings of the Board regarding the effect of the words "contiguous or adjacent" when applied to interlocking relationships in a large metropolitan area.

For your information, the Board has considered this matter in the light of the comments of the Federal Reserve Banks as well as other factors and has decided not to amend Regulation L, nor to make any other change along the lines mentioned in its letter of November 19.

Very truly yours,

A handwritten signature in cursive script, reading "Merritt Sherman".

Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 6  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 12, 1960



Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Crosse:

Reference is made to Mr. Bilby's letter of January 29, 1959, regarding the applicability of exception numbered (5) in section 8 of the Clayton Act to the service of Mr. Sidney Friedman at the same time as a director of The Meadow Brook National Bank of Nassau County, West Hempstead, New York, and as a director of the Commercial Bank of North America, New York, New York.

As you know, the matter has been under consideration in connection with a possible amendment to Regulation L or an interpretation regarding the effect of the words "contiguous or adjacent" because it appeared that unless some change or amendment were made, Mr. Friedman's relationships would be within the prohibitions of the statute.

As your bank is being advised today, the Board decided to make no change in the Regulation or its rulings. Consequently, it would appear to be in order for you to advise Mr. Friedman that, after careful consideration, the Board has decided that the relationships described above are within the prohibitions of the Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 7  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1960

Mr. Ross L. Hudson, President,  
The National City Bank of Denver,  
99 South Broadway,  
Denver 9, Colorado.

Dear Mr. Hudson:

Careful consideration has been given to your letters of December 31, 1959 to Chairman Martin and Governor Balderston, regarding the question whether the Clayton Act would prevent the service of your son, Mr. Robert K. Hudson, as a director of your bank in view of the fact that he is an officer and director of The Jefferson County Bank in Lakewood.

A re-examination of the facts has been made following receipt of your letter, and the matter has been discussed by telephone with Mr. Clay, the General Counsel of the Federal Reserve Bank of Kansas City. It appears that the situation is not distinguishable from that in a number of other cases in which the Board has concluded that the relationship would not be permissible under the statute, and, therefore, the Board is of the opinion that the advice given you by Mr. Woolley is correct.

Mr. Clay, of course, is being advised of this decision, and it may be that he will have discussed the matter with you by telephone before you receive this letter.

Very truly yours,  
  
(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
1/8/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 8, 1960.

Mr. W. R. Diercks, Vice President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Diercks:

From informal advice to the Board's Division of Examinations, it is understood that Valley Bank and Trust Company, Des Moines, Iowa, is tentatively considering membership in the Federal Reserve System. In such connection you have requested an expression of the Board's view on a question related to the administration of a profit-sharing trust established and maintained by the bank for the benefit of its employees; specifically, whether the present investment composition of the trust would seem to involve problems of such nature as would lead the Board to impose special conditions of membership designed to restrict such investments. In support of this inquiry you have furnished certain details concerning the trust and its assets, together with a copy of the underlying plan and trust agreement.

As you know, investment concentrations in employee benefit trusts, particularly concentrations in stock or obligations of the employer or his interests, have for some time been a matter of concern to the Board, and to other bank supervisory agencies and the Congress, with the possibility that at some future time legislation may be enacted which would impose restrictions on such investments. However, the Board has been impressed with the undesirability of attempting to deal with this matter, in individual cases, through the medium of conditions of membership. Consequently, on the basis of the facts and circumstances you have submitted relating to the profit-sharing trust in question, the Board is not inclined to impose a special condition of membership relative to this phase of the activities of Valley Bank and Trust Company.

The Board, of course, is not acquainted with other features of the condition, operations or management of Valley Bank and Trust Company which conceivably might have a bearing of importance on a final decision on this question. Therefore, in advising the inquiring bank of the views of the Board on this matter, it should be emphasized that, in the absence



Mr. W. R. Diercks

-2-

of analysis and review of the bank's over-all condition following receipt of a formal application for membership, the Board could not give a commitment as to the effect on its final action thereon of the administration of the trust in question or any other feature of the bank's condition or affairs.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.