

Minutes for September 12, 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.

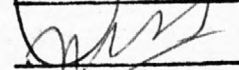
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

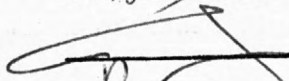
Chm. Martin



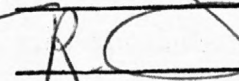
Gov. Szymczak



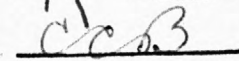
Gov. Mills



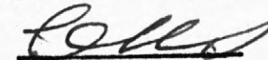
Gov. Robertson



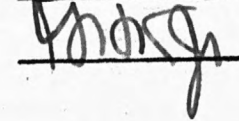
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on  
Monday, September 12, 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. Shepardson  
Mr. King

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Connell, Controller  
Mr. Landry, Assistant to the Secretary

Messrs. Marget, Hersey, Sammons, Irvine,  
Wood, Reynolds, Anderson, Elrod, and  
Gemmill, of the Division of Inter-  
national Finance

Messrs. Noyes, Garfield, Robinson, Brill,  
Dembitz, Williams, Eckert, Gehman, Keir,  
Solomon, Altmann, Peret, Trueblood, and  
Wernick, and Miss Dingle, of the Division  
of Research and Statistics

Economic review. The staffs of the Divisions of International  
Finance and Research and Statistics presented a review of international  
and domestic economic conditions and developments.

Thereafter all of the members of those Divisions except Mr. Noyes  
and Miss Dingle withdrew, as did Messrs. Thomas and Fauver, and the following  
entered the room:

Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Chase, Assistant General Counsel  
Mr. Thompson, Supervisory Review Examiner, Division  
of Examinations  
Miss Hart, Assistant Counsel

9/12/60

-2-

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:

	<u>Item No.</u>
Letter to the Federal Reserve Bank of St. Louis expressing the opinion that the provisions of the Clayton Act would not prevent members of the Advisory Board of First National Bank in St. Louis from serving as officers, directors, or employees of other member banks.	1
Letter to Price Waterhouse & Co., Washington, D. C., requesting that firm to make an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1960 at a convenient time after January 1, 1961.	2

In connection with the approval of Item No. 2, note was taken of the fact that this would be the fourth consecutive year in which Price Waterhouse & Co. had audited the Board's books and that, in keeping with a practice of rotating the firm of outside auditors at three- or four-year intervals, it would be expected that the Board would look into possible arrangements for having a different firm undertake the assignment for the following year.

Extension of time to continue insurance business-St. Joseph Agency, Inc. (Item No. 3). There had been distributed copies of a proposed letter to St. Joseph Agency, Inc., South Bend, Indiana, a bank holding company, that would grant an additional extension to and including May 9, 1961, pursuant to section 4(a) of the Bank Holding Company Act, of the time within which the company might continue to engage in the general casualty

9/12/60

-3-

insurance business. There had also been distributed under date of September 8, 1960, a memorandum from the Division of Examinations recommending that the extension be granted. Both St. Joseph Agency, Inc., and St. Joseph Bank and Trust Company are registered bank holding companies, with the former owning a majority of the outstanding voting shares of one insured nonmember State bank and over 25 per cent of the outstanding voting shares of another such bank, and with St. Joseph Bank as trustee holding all of the outstanding voting shares of Agency for the benefit of the bank's shareholders.

The Board previously had granted the applicants seven extensions of time during which the general casualty insurance business conducted by Agency might be continued, the latest of these extensions having expired September 6, 1960. At the time the applicants requested the most recent additional extension, the Board contemplated that the insurance business conducted by Agency would be transferred to a new corporation and that the shares of that corporation would be distributed to the bank's shareholders in a tax-free spin-off, pursuant to the tax provisions of the Internal Revenue Code. Now the applicants were making a different proposal whereby the insurance business would be incorporated and its stock distributed directly to the shareholders of St. Joseph Bank and Trust Company in a tax-free distribution under section 1101(c)(2) of the Bank Holding Company Act. The Legal Division had expressed the view in a memorandum dated September 7, 1960, that it would be inappropriate

9/12/60

-4-

for the Board to issue a prior tax certification in accordance with the plan now proposed by applicants and that, if such certification proved appropriate in accordance with applicants' plan, it could be issued only after a section 4(c)(6) hearing. It was the opinion of both the Legal and Examinations Divisions, however, that it would be practicable for the Board to approve an extension of time to not later than May 9, 1961, to enable Agency to continue its insurance business until the issues were clarified.

There being no objection, unanimous approval was given to the letter to St. Joseph Agency, Inc., South Bend, Indiana, granting an additional extension of time to May 9, 1961, pursuant to section 4(a) of the Bank Holding Company Act, within which it might continue its insurance business. A copy of the letter is attached hereto as Item No. 3.

Mr. Chase withdrew from the meeting at this point.

Prior tax certification petitions re insurance business conducted by St. Joseph Agency, Inc. (Item No. 4). In connection with the preceding item, there had been distributed a draft letter to the Chicago Reserve Bank suggesting two alternative courses of action that might be followed by St. Joseph Agency, Inc., and St. Joseph Bank and Trust Company, both of South Bend, Indiana, for the disposal of the insurance business conducted by the former. Accompanying the draft letter was a memorandum dated September 7, 1960, from the Legal Division which stated that the parallel petitions filed on July 20, 1960, by St. Joseph Agency and



9/12/60

-5-

St. Joseph Bank and Trust Company for prior tax certifications under section 1101(c)(2) of the Bank Holding Company Act with respect to the insurance business conducted by Agency raised two legal questions. The first of these legal questions was whether an insurance business could be considered "prohibited property" within the meaning of the Act and, if so, whether any of the property was acquired before May 15, 1955. The second question raised by the petitions was whether the Board could certify that the proposed distribution in respect to that business was "necessary or appropriate" to effectuate section 4 of the Act. It was the opinion of the Legal Division that both parts of the first question could be answered in the affirmative but that the second question should be answered in the negative.

In a letter dated July 22, 1959, the Board requested the Chicago Reserve Bank to advise both St. Joseph Agency and St. Joseph Bank and Trust Company that some change would have to be made with respect to the insurance business conducted by Agency and presented two alternative courses of action either of which would satisfy the statutory requirements of the Bank Holding Company Act: (a) Agency might transfer its insurance business to a newly created subsidiary corporation and then apply for a hearing to determine whether, under the standards set forth in section 4(c)(6) of the Act, it could retain the shares of the subsidiary; or, (b) since Indiana State law permits a bank to conduct an insurance business, the insurance business could be transferred to

9/12/60

-6-

St. Joseph Bank and operated directly by it on the theory that insurance is part of the business of banking in Indiana. According to the Legal Division's September 7 memorandum, the petitions received on July 20, 1960, assumed that the Board's letter of July 22, 1959, amounted to a determination that the insurance business of Agency is prohibited property; as a matter of fact, the Board's letter did not make an affirmative statement on this point, merely holding that the insurance business in question was not exempt from the divestment requirement under either sections 4(a)(2) or 4(c)(6) of the Bank Holding Company Act.

Governor Shepardson inquired whether the Board had, in effect, conveyed to St. Joseph Agency and St. Joseph Bank and Trust Company the impression that the former should divest itself of its insurance business.

Miss Hart replied in the negative, stating that a careful reading of the 1959 letter conveyed the same suggestions for a course of action that were now being proposed in the draft letter to the Chicago Reserve Bank. Mr. Hexter added the comment that the intricacy of the tax provisions bearing on this question possibly caused counsel for the holding companies to misunderstand the suggestions carried in the Board's letter of July 22, 1959.

In response to an inquiry from Governor Mills, Miss Hart pointed out that St. Joseph Bank and Trust Company and St. Joseph Agency proposed to form a new corporation, exchange the insurance business for shares in the corporation, and distribute the shares to the shareholders of Agency

9/12/60

-7-

which would in turn distribute them to the shareholders of the bank in a series of tax-free distributions under section 1101(c)(2) of the Bank Holding Company Act. In order to accomplish this end, Bank and Agency needed a prior certification from the Board to the effect that both the exchange and distribution were necessary or appropriate to effectuate section 4 of the Act. However, the Legal Division believed that it was possible under the Act for Agency to retain shares in a corporation formed to operate Agency's insurance business, and accordingly the Board could not properly issue the requested certification because distribution of the shares might not be "necessary or appropriate to effectuate section 4" of the Act. She noted that section 4(c)(6) of the Act permits a holding company to retain "shares of any company all the activities of which are of an...insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act....".

Discussion having made it apparent that the members of the Board concurred in the views expressed in the draft letter to the Chicago Reserve Bank suggesting alternative courses of action that might be followed by St. Joseph Agency, Inc., and St. Joseph Bank and Trust Company for the disposal of the insurance business now conducted by St. Joseph Agency, the letter was approved unanimously. A copy is attached as Item No. 4.



9/12/60

-8-

Messrs. Solomon and Thompson and Miss Hart then withdrew from the meeting and Mr. Fauver, Assistant to the Board, entered the room.

Budgetary provision for 1961 consumer financial survey work.

Under date of September 6, 1960, a memorandum from Mr. Noyes had been distributed recommending (a) authorization of \$40,000 for 1961 to permit further methodological work in the area of consumer financial surveys, and (b) provision in the 1961 budget of \$30,000 for preliminary work in the second half of 1961 associated with the 1962 nationwide financial survey. It was indicated in the memorandum that the methodological program proposed would complete the necessary groundwork for a nationwide survey to obtain data on net worth and financial attitudes from a sample of consumers with a heavy representation of high-income and high-asset families. It was hoped that such a survey could be conducted early in 1962, with provision in the 1961 budget for any necessary expenditures late in 1961 in this connection.

Mr. Noyes noted that the methodological work proposed for 1961, for which up to \$40,000 was requested, consisted of the following projects to be completed before undertaking in 1962 a nationwide survey of consumer net worth and financial attitudes:

- (1) A study to match data collected in Census projects with Internal Revenue Service data.
- (2) Further exploration of the sample source to investigate means of splicing a sample drawn partially from Internal Revenue Service data to a household population sample.

9/12/60

-9-

- (3) A pilot study to reinterview respondents in one or more cities to test response rates and to determine the suitability of the first-stage questionnaire now in use.

During a discussion of these recommendations questions were raised as to the relationship between the projects for which an additional amount up to \$40,000 was being requested and those to which the request for \$30,000 pertained, as well as to the estimated cost of the complete nationwide consumer survey in 1962 of buying plans, savings, and assets. In response to these questions, Miss Dingle said that the \$40,000 authorization requested for 1961 related to "tying up loose ends" of projects already under way, such as the validation of Bureau of the Census and Internal Revenue data on buying plans of high-income consumers. The \$30,000 request on the other hand, she said, involved preliminary work on consumer surveys relating to net worth and savings attitudes among high-income, high-asset families. She recalled that the Board on August 24, 1960, approved the provision of \$135,000 for continuing the quarterly survey of consumer buying intentions in 1961 and for a limited amount of special work in the field. The additional \$70,000 requested for 1961 would raise the consumer survey budget for 1961 to a total of \$205,000, of which \$30,000 would be associated with the projected 1962 survey of consumers financial positions. She said that in view of the desire to leave the quarterly survey of consumer buying intentions unchanged and to postpone the financial survey to 1962, no expenditures had been made in 1960 in connection with planning the 1961 quarterly surveys and planning a 1962 financial survey of net worth and savings attitudes of consumers.

9/12/60

-10-

Governor Mills commented that he assumed that Board approval of these requests totaling \$70,000 for expenditures in 1961 would not commit the Board to financing a larger project along these lines when presented at a future meeting unless such larger project fell within the Board's concept of what was reasonable and proper in this area. Miss Dingle replied that this was the case and that the entire consumer survey program would be presented to the Board in detail about the middle of 1961.

Following a comment by Governor Shepardson that there were two or three additional major projects to be brought before the Board by the Division of Research and Statistics for preliminary consideration prior to inclusion in next year's budget, unanimous approval was given to the recommendations contained in Mr. Noyes' memorandum authorizing \$40,000 for 1961 to permit further methodological work in the area of consumer financial position surveys and provision in the 1961 budget of \$30,000 for preliminary work in the second half of 1961 associated with the 1962 nationwide financial position survey.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum dated September 9, 1960, from Mr. Koch, Adviser, Division of Research and Statistics, recommending the appointment of Joan D. Hosley as Statistical Assistant in that Division, on a temporary basis for a period of three months, with basic annual salary at the rate of \$4,840, effective the date of entrance upon duty.



Secretary

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

Item No. 1  
9/12/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 14, 1960



Mr. George E. Kroner, Vice President,  
Federal Reserve Bank of St. Louis,  
P. O. Box 442,  
St. Louis 66, Missouri.

Dear Mr. Kroner:

Receipt is acknowledged to your letter of August 11, 1960, regarding the question whether members of the Advisory Board of First National Bank in St. Louis may serve as officers or directors of member banks in view of the provisions of section 8 of the Clayton Act. You point out that the situation seems very similar to the one considered by the Board in its letters of October 10, 1951 and December 4, 1951, with respect to the Advisory Board of the Mercantile Trust Company, St. Louis.

The members of the Advisory Board of the Mercantile Trust Company not only met with the directors at all of their meetings but had a chairman who had to be invited to participate ex officio in all of the meetings of all committees of the board, and the members of the Advisory Board could be appointed to serve in an advisory capacity to any committee of the Board of Directors.

As you know, a great many member banks have advisory boards, and although the applicability of the Clayton Act must be determined on the basis of the facts of each case, in the usual case the members of such advisory boards are not regarded as officers, directors, or employees of the bank within the meaning of the Clayton Act.

In the present case it appears that the members of the Advisory Board of First National Bank in St. Louis attend all meetings of the board and participate in the discussions. However, they have no official vote on any matter coming before the board of directors, and no provision is made for their serving on any committees of the board of directors, nor do they have a chairman who is to participate ex officio in all meetings of all



Mr. George E. Kroner -2-

committees of the Board. It does not appear that they have any authority to manage or direct any part of the business of the bank or do anything except offer advice to the board of directors.

In view of these circumstances, this board would appear to be essentially the same as the usual advisory board, which the Board of Governors, in the absence of special circumstances, regards as not consisting of officers, directors or employees of the bank within the meaning of the Clayton Act. In the circumstances the Board is of the opinion that the Clayton Act does not prevent the members of the Advisory Board of First National Bank in St. Louis from serving as officers, directors or employees of a member bank.

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  
9/12/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 12, 1960



Price Waterhouse & Co.,  
1710 H Street, N. W.,  
Washington 6, D. C.

Gentlemen:

It is requested that your firm undertake as promptly as convenient after January 1, 1961, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1960.

You will make the audit as extensive as you deem appropriate and in such manner as appears to you to be desirable in the light of generally accepted auditing standards.

Written confirmation that you will undertake this audit will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
9/12/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 13, 1960.



Mr. W. W. Brummitt, Vice President,  
St. Joseph Agency, Inc.,  
St. Joseph Bank Building,  
South Bend 1, Indiana.

Dear Mr. Brummitt:

This refers to the application of St. Joseph Agency, Inc. and St. Joseph Bank and Trust Company, requesting an additional 90-day extension of time within which St. Joseph Agency, Inc. may continue its insurance business.

In view of the questions involved concerning the applications for a prior tax certification pursuant to the provisions of the Internal Revenue Code, the Board has granted an extension to and including May 9, 1961, pursuant to section 4(a) of the Bank Holding Company Act of 1956.

Attention is drawn to the fact that section 4(a) of the Act requires that by May 9, 1961, St. Joseph Agency, Inc. and St. Joseph Bank and Trust Company shall cease to be engaged in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which they own or control 25 per centum or more of the voting shares.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
9/12/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



September 13, 1960

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

Dear Mr. Diercks:

This refers to your letter of July 18, 1960, which enclosed petitions from the St. Joseph Agency, Inc. ("Agency") and the St. Joseph Bank and Trust Company ("Bank") asking that the Board grant prior tax certifications under section 1101(c)(2) of the Bank Holding Company Act (the "Act"), with respect to a proposed disposition of the insurance business now conducted by Agency. Both Bank and Agency are bank holding companies, since Agency owns two banks, and all the stock in Agency is held by Bank as trustee for the benefit of Bank's shareholders. Agency has conducted an insurance business since a time prior to May 15, 1955.

In a letter dated July 22, 1959, the Board asked that you advise the holding companies that neither section 4(a)(2) nor section 4(c)(6) of the Act permits retention of the insurance business in its present form, since such a business does not qualify under the "servicing" exemption of the first, nor can it be fitted into the exemption provided by the second section, which applies only to shares in a corporation conducting a qualified business and not to direct ownership of the business itself.

The Board's letter also suggested that either of two alternative courses of action would satisfy the statutory requirement that bank holding companies divest themselves of interests in nonbanking businesses not explicitly exempted under section 4 of the Act. Agency might transfer its insurance business to a newly created subsidiary corporation, applying for a hearing to determine

Mr. W. R. Diercks

-2-

whether, under the standards set forth in section 4(c)(6), it could retain the shares of the subsidiary. Or, since Indiana law permits a bank to conduct an insurance business, the insurance business could be transferred to Bank and operated directly by it.

Bank and Agency have applied for and received a series of extensions of time, while exploring various alternative solutions to the difficulty; the current extension will expire May 9, 1961. They now propose to form a new corporation, exchange the insurance business for shares in the corporation, and distribute the shares to Bank as shareholder of Agency, and Bank will in turn distribute them to the shareholders of Bank, in a series of tax-free distributions under section 1101(c)(2) of the Act. In order to achieve this end, they must have a prior certification from the Board that both "the exchange and distribution are necessary or appropriate to effectuate section 4" of the Act. The Board is of the opinion that such a certification cannot be given, under the statute, for the following reasons.

A preliminary difficulty concerns the question whether the property exchanged will include prohibited property which was owned by the holding company prior to May 15, 1955, as the statute requires. Little, if any, of the property involved in conducting an insurance agency business, of course, attains an age of over four years. It is believed that this difficulty can be met, however, in view of the fact that the insurance department of Agency, as a going business, has "goodwill". Goodwill has been held to be a transferable capital asset under the Internal Revenue Code, of which section 1101 forms a part.

A more serious obstacle concerns the question whether the distribution of stock in a new corporation formed to receive and conduct the insurance business of Agency would be "necessary or appropriate" to effectuate section 4. Section 4(c)(6) permits a holding company to retain "shares of any company all the activities of which are of [an] . . . insurance nature and which the Board after due notice and hearing, and on the basis of the record made at such hearing, by order has determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of this section to apply in order to carry out the purposes of this Act . . . ."



Mr. W. R. Diercks

-3-

From preliminary information available to the Board, it appears that if a hearing were held to determine whether Agency could retain shares in a corporation formed to operate the insurance business which Agency now carries on, the Board might well reach an affirmative conclusion. In view of this fact, the Board could not properly issue the requested certification, since the distribution of the shares might not be "necessary or appropriate to effectuate section 4" of the Act. A contrary interpretation with respect to section 1101(c)(2) would permit a bank holding company to make use of the statutory provisions for tax-free divestment of nonbanking property with respect to property which it might be entitled to retain under section 4(c)(6), and would not seem to accord with the stated intent of Congress to provide tax-free paths for divestments which the Act imposes on a holding company.

In the light of these views, Agency and Bank may wish to withdraw the petitions enclosed with your letter of July 18, 1960, and to reconsider their future course of action. As the Board held in the Matter of the Requests of First Bank Stock Corporation, 1959 Federal Reserve Bulletin, page 928,

" . . . the language of Section 4(c)(6) . . . does not, in the Board's opinion, preclude consideration of a request for exemption with respect to a corporation in which the Applicant proposes to acquire stock where . . . the nature of the activities to be carried on by that corporation is susceptible of determination."

For this reason, it would be appropriate for the Board to consider a request for a determination under section 4(c)(6) with respect to shares in a corporation formed to carry on the insurance business now conducted by Agency. Or, alternatively, as stated above, it is the opinion of the Board that Bank could take over and operate the insurance business in question without violating section 4(a)(2) of the Act. It should be pointed out, however, that the Act does not permit an extension of time for the disposal of the prohibited property of Agency beyond May 9, 1961, a date which is now less than eight months in the future.

It would be appreciated if you would transmit the substance of this letter to St. Joseph Agency, Inc., St. Joseph Bank and Trust Company, and Mr. Charles M. Boynton of the law firm of Doran and Manion, counsel for both bank holding companies.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.