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Minutes for November 8, 1962

To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

m

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, November 8, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board

Mr. Olin, Assistant Vice President, Federal Reserve Bank of Minneapolis

Messrs. Noyes, Koch, Brill, Garfield, Holland, Williams, Eckert, Gehman, Partee, Trueblood, and Yager, and Miss Dingle of the Division of Research and Statistics

Messrs. Furth, Sammons, Katz, Gemmill, Irvine, Reynolds, and Swerling of the Division of International Finance

Economic review. The Divisions of International Finance and Research and Statistics presented a review of recent international and domestic economic and financial developments.

All of the representatives of those two Divisions except Mr. Noyes then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Smith, Senior Economist, Division of Research and Statistics
Mr. Young, Senior Attorney, Legal Division
Mr. Veenstra, Technical Assistant, Division of Bank Operations

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Circulated item. The following item, a copy of which is attached as Item No. 1, was approved unanimously:

Letter to the Federal Reserve Bank of Chicago interposing no objection to a possible three-month leave of absence without pay for Miss Jo Ann Aufdenkamp, Librarian, to permit her to accept a special assignment.

Qualifications of Class B directors at Federal Reserve Banks.

Before this meeting there had been distributed a memorandum from Mr. Hackley dated November 7, 1962, relating to the eligibility of a president of a fire insurance company to serve as a Class B director of a Federal Reserve Bank. The memorandum had been prepared as a result of the nomination of Mr. Fred C. Merrill, President of Fireman's Fund Insurance Co., San Francisco, to serve as a Class B director of the Federal Reserve Bank of San Francisco.

In commenting on the memorandum, Mr. Hackley noted that section 4 of the Federal Reserve Act prohibits a Class B director from being "an officer, director, or employee of any bank," and that it provides further that Class B directors "shall be actively engaged in their district in commerce, agriculture, or some other industrial pursuit." Since an insurance company clearly is not a bank, Mr. Hackley said, the question turned upon whether the president of a fire insurance company met the last quoted requirement of the statute.

Mr. Hackley went on to say that in 1925 the Board took the position (F.R.L.S. #3095) that a person whose sole occupation was that of an officer of an insurance company was not eligible for election as a Class B director because (a) he was not actively engaged in "commerce,

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agriculture, or some other industrial pursuit" within the meaning of that language as used in the Federal Reserve Act and (b) it was contrary to the policy of Congress for a person so closely identified with the financial interests to be permitted to serve as a Class B director of a Federal Reserve Bank. The Board had discussed this question in 1952 when an inquiry arose regarding possible selection of the president of a fire insurance company as a Class B director. Although the Board at that time took note of decision of the Supreme Court in 1944 in U.S. v. Southeastern Underwriters Association, 322 U.S. 533, that the insurance business constitutes "commerce" within the meaning of the commerce clause of the Constitution, it had not reached a decision to change its 1925 ruling. Mr. Hackley also said that, while the matter could be argued either way, he was inclined to feel that the grounds on which the Board's 1925 ruling was based were still valid and that reaffirmation of that position would be preferable to a reversal of it. He noted that the Supreme Court ruling in 1944 was not necessarily controlling in interpreting the word "commerce" as far as the Federal Reserve Act was concerned. Further, he felt that on policy grounds the second reason given in the 1925 ruling still had some validity, even though the legislative history of the Federal Reserve Act was not too helpful in that regard. In response to a question from Governor Robertson, he stated that the specific inquiry considered by the Board in 1952 related to the President of the St. Paul Fire and Marine

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Insurance Company and his possible service as a Class B director of the Federal Reserve Bank of Minneapolis, and that apparently the individual concerned was not nominated following a discussion that former Governor Evans had with the President of the Minneapolis Bank.

Governor Mills stated that his reasoning led him to the conclusion that the Board would be well advised to hold to the position that a person whose sole occupation was that of an officer of an insurance company was not eligible to serve as a Class B director. A reversal of this position could lead to the overweighting of lending and financial institutions on the boards of directors of the Federal Reserve Banks. He noted that the Board of Governors also had been reluctant to appoint as Class C directors persons whose principal activities were in the insurance field, at least where the individual was a member of the finance committee of a large insurance company. If service as a Class B director were to be permitted in the case of officers of insurance companies, he felt it would be extremely difficult for the Board as a matter of policy to consider insurance company directors or officers as ineligible for appointment as Class C directors.

Governor Robertson said that his view was essentially the same as that stated by Governor Mills. In the present instance, the application of the ruling was unfortunate in that Mr. Merrill's nomination had already been announced and he was reported to be an exceptionally able person who would make a good director. The principle seemed to Governor Robertson to be more important over the long run,

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however, and in his opinion there was inherent in the history of the Federal Reserve Act the feeling that Class B directors should be representative of borrowers rather than lenders.

In response to a question from Governor Balderston, Governor Robertson stated that he could not see that it would make much difference whether a life insurance company or a fire insurance company was involved so long as the individual's principal occupation was with an insurance company that engaged to a considerable degree in lending activities. He also expressed the view that, as Mr. Hackley had indicated, the Supreme Court's 1944 decision that held that insurance was "commerce" under the interstate commerce clause was not necessarily a guide to whether insurance was "commerce" as used in stating qualifications for Class B directors in the Federal Reserve Act.

Governor Balderston then inquired whether an officer of a finance company would be eligible to serve as a Class B director, and Mr. Hackley responded that, offhand, he would feel that such an individual would not be eligible on the grounds that he was closely affiliated with the financial and lending business; he might more appropriately serve as a Class A director.

Governor Mitchell stated that he had no particular feeling one way or the other on the question under discussion.

Governor Balderston said that his principal concern was that the directors of the Federal Reserve Banks be strong men in their areas, well regarded in their communities. He thought this

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was of great importance to the System. On the other hand, he agreed that there was logic to the reasoning mentioned in Mr. Hackley's memorandum of November 7 on which the Board's 1925 ruling was based. Perhaps it would be wise to hold to the 1925 position, but in doing so he noted that the Board was having increasing difficulty in finding persons to serve as Federal Reserve Bank and branch directors who were not associated in some way with finance.

In response to a question as to how Mr. Merrill's name had been included as a nominee in view of the Board's outstanding 1925 instruction, Mr. Sherman stated that he understood Mr. Swan had discussed the subject informally when he was in Washington several months ago and had gotten the impression that, in view of the 1944 Supreme Court decision, the 1925 ruling was no longer applicable. It was only after the nomination was announced on October 29 that the question had been brought formally to the Board's attention. It was also noted that, when the Board's letter of September 3, 1959, revising the procedure for election of Class A and Class B directors was approved, it was decided to omit certain Board rulings relating to eligibility requirements rather than to include all such rulings in the footnote references in the Banks' election circulars. As a result, Mr. Swan had stated over the telephone that he had not asked for a formal ruling from the Board at the time Mr. Merrill's name was suggested, but had proceeded on the assumption that the Supreme Court ruling that "commerce" included the insurance business was sufficient to permit Mr. Merrill's service.

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Chairman Martin stated that he did not think this was a matter of great importance either way. However, it was getting more and more difficult for the System to get good men to serve as directors of the Federal Reserve Banks and branches, and this was something that the Board should bear in mind. The number of men whose occupations were solely in the insurance field and who would be particularly desirable as Reserve Bank directors was quite limited, in his opinion, and he doubted that a reversal of the Board's 1925 ruling would greatly alter the composition of the Reserve Bank boards of directors. Since the Board had had a rule since 1925 that precluded insurance company men serving as Class B directors, and since it was somewhat easier to have followed the same rule consistently, it might be best if the Board reaffirmed that position on the policy grounds noted earlier. In doing so, however, he would state again that the Board was finding it more and more difficult to get the kind of men to serve as directors of the Federal Reserve Banks and branches that the System needed. He did not like to rule out good men or to embarrass anybody with an interpretation of this sort.

Governor Balderston stated that Governor Mills' point as to overweighting the boards of directors of the Reserve Banks with men having financial interests was a point that had considerable bearing with him in reaching the conclusion that the 1925 ruling logically should be reaffirmed. However, he felt it unfortunate that no notice had been contained in the election circular that would have informed

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member banks in advance that the Board had an unpublished ruling that would preclude Mr. Merrill's service.

Governor Robertson suggested that, before indicating whether Mr. Merrill could or could not serve, if elected, the matter might be discussed with Mr. Swan with a view to finding out whether there would be any particular embarrassment either to Mr. Merrill or to Mr. Swan in notifying the former at this time that he was ineligible to serve.

In response to a question from the Chairman, Mr. Sherman noted that Mr. Merrill had been nominated pursuant to the San Francisco Bank's circular election letter of September 12, that Mr. Merrill was the sole nominee for the Class B directorship, that the polls for the election had opened November 1 and would close November 16, and that Mr. Swan had informed him that, while there would be embarrassment, it would be less embarrassing to notify Mr. Merrill and the member banks in advance of the closing of the polls than to inform them after November 16 that he was ineligible to serve although nominated and elected.

Chairman Martin then proposed that the Board raise no objection to Mr. Merrill's serving as a director in view of the circumstances that had been outlined. However, at some time after the end of this year, a circular letter would be sent to the Federal Reserve Banks reaffirming the 1925 ruling that would preclude service as a Class B director of an individual whose sole occupation was with an insurance

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company. Such letter would also provide for a sufficient statement to be included in circular letters announcing the elections of Class A and B directors to apprise member banks of affiliations that would make individuals ineligible to serve because of failure to meet qualifications as determined either by statute or by Board interpretation.

There was agreement with this suggestion, and it was understood that Mr. Swan would be informed of this decision as well as the plan for issuing a reaffirmation of the 1925 ruling some time after the end of the current year.

Qualification of branch director. During consideration of the foregoing topic, Mr. Sherman stated that Mr. Swan had also discussed with him by telephone a question as to eligibility of Robert D. O'Brien to accept appointment as a director of the Seattle Branch of the Federal Reserve Bank of San Francisco, pursuant to the appointment tendered him on behalf of the Board. When Mr. O'Brien, who is President of Pacific Car & Foundry Company, Seattle, was asked whether he was a director of a commercial bank, he had responded in the negative. He added, however, that he was serving as a director of a mutual investment fund and inquired whether that would be inconsistent with his service as a director of the Seattle Branch. Mr. Sherman said that, while there appeared to be no Board ruling on the exact question presented, a somewhat similar type of association had arisen in the case of former director Ralph Sundquist of the Seattle Branch, who was serving as a limited partner of Walston & Company, an investment company and member of various

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stock exchanges. In that instance, the Board had written the Federal Reserve Bank of San Francisco under date of January 19, 1955, that no provision of law or of the Board's regulations would preclude such an affiliation and that it did not appear that the Board had ever objected as a matter of policy to affiliations of this kind.

Governor Mills stated that he could perceive no objection to service as a director of a mutual fund while serving as a director of a Reserve Bank branch. He noted that in Mr. O'Brien's case his principal occupation was that of President of an industrial concern and that his service with the mutual investment fund was only as a director and not as an officer.

There was general agreement with the view expressed by Governor Mills, and it was understood that Mr. Swan would be informed accordingly.

Mr. Young then withdrew from the meeting and Messrs. Farrell, Director, Division of Bank Operations; Conkling, Assistant Director of that Division; and Holland, Adviser, Division of Research and Statistics, entered the room.

Research plans for Patman chain banking survey data. Mr. Noyes stated that, in accordance with a question raised earlier, he had looked into the possibility of using data compiled from the chain banking survey questionnaire sent out by the Board at the request of Chairman Patman of the House Select Committee on Small Business. He noted that member banks had been asked to report the names of their 20 largest stockholders and the number of shares owned by each. The names of directors also had been

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requested, with share holdings, and banks were asked to report loans outstanding secured by stock of other banks, where such stock constituted 10 per cent or more of the outstanding common stock of such bank. As had been indicated earlier, almost all member banks had supplied the requested information, although relatively few had loans secured by bank stock of the type to be reported under the question asking for such information. Mr. Noyes went on to say that the information requested was essentially "lead" type information. It might be suggestive of situations where control of a large number of banks might rest in a central group. There did not appear to be any way of identifying the significance of such control by means of statistical analysis of these data, however, and research on the basis of the information supplied would seem to be limited to deriving leads as to situations that warranted investigation. Such investigation would involve applying the knowledge that examiners familiar with the use of examination reports and with individual bank operations might have or might develop. The kind of research that might be undertaken through statistical and analytical techniques to which the Division of Research and Statistics was accustomed would appear to be quite limited.

Governor Robertson stated that he had raised the question whether the Board was getting out of the Patman chain banking questionnaire what it should be getting, and he went on to say that his concern was that the Board not be in the position of being unaware of the potential significance of data that it had collected and which might be useful in

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a study of banking control. In other words, the Board and its staff should know what could be derived from the data reported by member banks in response to Mr. Patman's questionnaire. If, as Mr. Noyes had indicated, the Board's Division of Research and Statistics was unable to find a basis for a research study that it might make with the data reported, he still was not sure that this would be true with respect to the examining divisions of the Board or of the Federal Reserve Banks. The latter might well find that a study of the individual questionnaires would enable them to derive some knowledge that would be helpful in knowing more about banking control.

Governor Mitchell said that he had felt much as Governor Robertson indicated. When this proposal first came to the Board early this year, he had some feeling that the Board should be making a survey in this area at its own initiative. As it turned out, Mr. Patman had developed his questionnaire and on the basis of the information gathered he (Mr. Patman) might say that he had obtained material for use in proposing legislation which should have been gathered by the Board earlier. Governor Mitchell went on to say that all that seemed to him necessary was that the Board's staff have done whatever thinking was necessary to understand the implications of the data gathered on the questionnaire designed by Mr. Patman and sent out by the Board at his request. The fact that the information gathered was incomplete from the standpoint of a research study of the banking structure did not mean in Governor Mitchell's opinion that nothing of significance could be said about the

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data that had been collected. As a member of the Board, he did not feel that he was fully aware of the implications of the data collected for Mr. Patman. He would like to be sufficiently informed to be able quickly to evaluate any report by Mr. Patman growing out of his (Mr. Patman's) use and analysis of the data. For example, he would like to know whether the data indicated undesirable extensions by banks of loans on stock of other banks. In his view, the Board should be prepared with information of this sort at the time that Mr. Patman might be expected to issue a statement based on the survey, presumably about the end of this year.

Following a brief discussion, Chairman Martin suggested that it would be desirable for the staff to review the material collected at Mr. Patman's request in the light of the comments at this meeting with the thought that the Board should have a further discussion of the subject at the meeting on November 14.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 2) approving the designation of 10 employees as special assistant examiners.

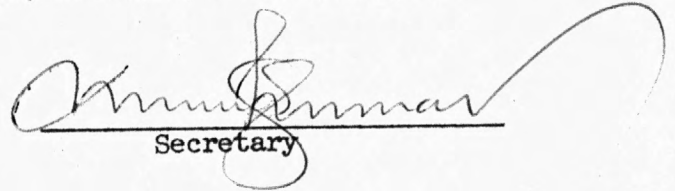
Letter to the Federal Reserve Bank of Chicago (attached Item No. 3) approving the appointment of Robert B. Bowman as assistant examiner.

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Memoranda from the Division of Research and Statistics recommending increases in the basic annual salary of the following employees in that Division, effective November 11, 1962:

Theodore G. Flechsig, Economist, from \$10,105 to \$11,150.
Edwin J. Swindler, Economist, from \$10,420 to \$11,150.



Secretary

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

Item No. 1
11/8/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1962

Mr. Charles J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

This is in reply to your letter of October 25, 1962, regarding a possible leave of absence without pay for a period of three months for Miss Jo Ann Aufdenkamp, Librarian, in order to permit her to accept an assignment with Klein & Saks as library consultant to the National Planning Council of the Government of Liberia.

The Board of Governors interposes no objection to this leave of absence for Miss Aufdenkamp.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2
11/8/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 9, 1962

Mr. G. T. Quast, Chief Examiner,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Quast:

In accordance with the request contained in your letter of October 31, 1962, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks:

Robert R. Eveleth
Ralph R. Voss
Roger L. Benter
William F. Borgman

Carl Czirr
Kenneth C. Day
Marvin Lee Keane
Ronald Pirman

The Board also approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of State member banks except those listed opposite their names:

Roscoe Harrison	-	The Fifth Third Union Trust Company, Cincinnati, Ohio.
Earl C. Snyder	-	The Provident Bank, Cincinnati, Ohio.

The authorizations heretofore given your Bank to designate these individuals as special assistant examiners are hereby canceled.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 3
11/8/62

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 9, 1962

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of October 29, 1962, the Board approves the appointment of Robert B. Bowman as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.