

FD 609
Rev. 9/61

Minutes for January 15, 1963

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. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Handwritten initials and signatures for each board member, written over horizontal lines. The initials are: a circled 'M' for Martin, a large scribble for Mills, 'R' for Robertson, 'CB' for Balderston, 'CS' for Shepardson, 'MK' for King, and 'MM' for Mitchell.

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, January 15, 1963. 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. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank
Operations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of
Examinations

Circulated or distributed items. The following items, copies
of which are attached to these minutes under the respective item numbers
indicated, were approved unanimously:

Item No.

Letter to the Federal Reserve Bank of Richmond
interposing no objection to the Bank's proposed
acquisition of certain property in Richmond.

1

1/15/63

Item No.

Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting permission to purchase additional shares of Banque Nationale pour le Developpement Economique, Rabat, Morocco.

2

Mr. Daniels withdrew from the meeting at this point.

Status of industrial banks under the Bank Holding Company Act.

There had been distributed a memorandum dated January 9, 1963, from the Legal Division regarding the status of industrial banks under the Bank Holding Company Act. The memorandum noted that Beneficial Finance Company, Wilmington, Delaware, and Allstate Enterprises, Inc. (a wholly-owned subsidiary of Sears, Roebuck and Co.), Skokie, Illinois, had submitted requests to the Board for a ruling on whether so-called "industrial banks" would be considered banks under the provisions of the Act; a similar inquiry had been received informally from Midwestern Financial Corporation, Denver, Colorado. It was stated that Beneficial and Midwestern each owned an institution that was clearly a bank and that Allstate intended to purchase one in the future. Further, all three organizations were contemplating either organization or purchase of one or more industrial banks to facilitate their consumer finance activities. Before proceeding, however, they wished to know whether their control of an industrial bank as well as another institution that was conceded to be a bank would subject them to the provisions of the Bank Holding Company Act.

1/15/63

-3-

The memorandum went on to consider the nature of industrial banks, the scope of their activities, and the previous rulings of the Board relating to this particular subject. The memorandum then stated that the question presented by the pending inquiries had been considered by Mr. Bakke of the Legal Division, who had concluded that the issuance of investment certificates by industrial banks unrelated to loan transactions involved, in effect, the receipt of deposits. Therefore, applying the "deposit test," industrial banks should be regarded as banks for purposes of the Act. (A copy of the memorandum of November 16, 1962, prepared by Mr. Bakke on this subject was attached to the Legal Division's memorandum.)

The Legal Division's memorandum pointed out that during extended consideration of the matter by the staff, five alternative approaches had been considered. Each approach was then described. It was the consensus of the Legal Division that of the five approaches considered, the following one was preferable in terms of supervisory philosophy and ease of administration: that the Board adopt a broad position that an industrial bank was not the sort of institution that Congress intended the Bank Holding Company Act to cover; therefore, that it should not be considered to be a bank for the purposes of the Act unless, regardless of the title of the institution or form of transaction, it accepted demand deposits subject to check or otherwise accepted funds from the public that were, in actual practice, repaid on demand.

1/15/63

-4-

Attached to the memorandum was a proposed interpretation drafted in a manner reflecting the position suggested by the Legal Division. It was suggested that, if such an interpretation should be issued, the pending inquiries be answered by transmitting copies of the interpretation.

At the Board's request Mr. Hackley commented on the matter in some detail, drawing his remarks largely from the information contained in the memorandum of January 9. After describing the problems that the question raised and the alternative approaches that might be adopted by the Board, he called attention to the memorandum prepared by Mr. Bakke, noting that the analysis therein provided a fresh approach to the problem. It was felt that the conclusion reached by Mr. Bakke had much merit. However, looking at the Bank Holding Company Act from the standpoint of its broad objectives, the staff consensus was that such an interpretation might go beyond the Congressional intent. A review of the legislative history indicated that Congress apparently did not feel that the Act should cover every phase of banking activity, since Congress considered it necessary to enact subsequent legislation in order to regulate holding companies controlling savings and loan associations. Further, there was nothing in the legislative history indicating that Congress intended to include industrial banks within the purview of the Act, and certain inferences might be drawn from the record of Congressional debate which would seem to indicate that industrial banks were not intended to be included.

1/15/63

-5-

In conclusion, Mr. Hackley suggested certain changes in the draft interpretation proposed by the Legal Division, should the Board determine that the position embodied therein was appropriate.

There followed a general discussion of the problem, including the nature of the activities of industrial banks, the variations in such activities according to the laws of the respective States, the implications of the several alternative approaches that had been outlined by the Legal Division, and the apparent intent of the Bank Holding Company Act, the thrust of which appeared to be toward the control of commercial banking resources. It was pointed out, among other things, that the adoption of the interpretation recommended by the Legal Division would not appear to necessitate reversal of any rulings heretofore made by the Board.

During the course of the discussion, certain suggestions for changes in the proposed interpretation were generally agreed upon, including those mentioned earlier by Mr. Hackley. In light of these suggestions, it was understood that the proposed interpretation would be redrafted by the staff. Subject to these changes being made, it was understood that the position embodied in the interpretation was acceptable to the Board.

Secretary's Note: A revised draft of the interpretation was considered by the Board on January 16, 1963.

1/15/63

-6-

All members of the staff then withdrew and the Board went into executive session.

Following the meeting, the Secretary was informed that during the executive session Governor Mitchell reported that when he was in Venezuela earlier this month the Governor of the Central Bank of Venezuela had raised with him the question of a possible foreign currency swap arrangement between the Federal Reserve System and that central bank. It was further reported that, at Chairman Martin's suggestion, it was understood the Secretary of the Federal Open Market Committee would be informed of this inquiry in order that appropriate attention might be given to it through Committee channels.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum from Emanuel Melichar, Economist, Division of Research and Statistics, requesting permission to teach a course in modern economics at the University of Richmond on three evenings in January 1963.


Secretary



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

Item No. 1
1/15/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1963

Mr. Edward A. Wayne, President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Wayne:

This refers to the proposed purchase of property across the street from your head office building and adjacent to the Bank's parking lot, as described in your letter of December 19, 1962.

The Board will interpose no objection to the Bank's acquisition of the proposed property and authorizes its purchase for \$275,000.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
1/15/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1963

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request in your letter of November 27, 1962, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation to purchase and hold 10,000 additional shares, par value 50 Dirhams each, of Banque Nationale pour le Developpement Economique, Rabat, Morocco, at a cost of approximately US\$100,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted subject to the same conditions prescribed in the Board's letter of October 23, 1961, granting consent to the purchase of 10,000 shares of Banque Nationale pour le Developpement Economique.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.