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Minutes for February 12, 1964

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. Mills	<u> </u>
Gov. Robertson	<u> </u>
Gov. Balderston	<u> </u>
Gov. Shepardson	<u> </u>
Gov. Mitchell	<u> </u>
Gov. Daane	<u> </u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, February 12, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of
Research and Statistics
Mr. Solomon, Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of
International Finance
Mr. Goodman, Assistant Director,
Division of Examinations
Mr. Thompson, Assistant Director,
Division of Examinations
Mr. Spencer, General Assistant, Office
of the Secretary
Mr. Doyle, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division
of Examinations

First Finance Company (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated February 7, 1964, submitting a draft of proposed letter to First Finance Company, Nevada, Missouri, granting a determination that the company was not a holding

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company affiliate except for the purposes of section 23A of the Federal Reserve Act.

In discussion, Governor Robertson noted that the applicant in this instance was a consumer finance company. In his opinion, companies of this nature should not be permitted to pursue the practice of buying control of a bank without any restrictions being imposed. For this reason, he would disapprove the request.

The letter to First Finance Company was then approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 1.

Messrs. Hooff and Thompson then withdrew from the meeting.

Morgan Guaranty proposal (Item No. 2). There had been distributed a memorandum from the Legal Division dated February 5, 1964, with regard to a letter to the Board of January 31, 1964, from Morgan Guaranty International Finance Corporation, New York, New York (a wholly-owned subsidiary of Morgan Guaranty Trust Company, a member bank) advising that its letter of September 10, 1963, should be disregarded. The letter of September 10 had informed the Board of the intent of Morgan Guaranty International to permit the New York investment banking firm of Morgan Stanley & Co. to acquire indirectly a 20 per cent stock interest in Morgan's investment banking subsidiary, Morgan & Cie., S. A., Paris, France. In conjunction with this stock acquisition, it was proposed that a person serving as a partner or employee of Morgan Stanley & Co. be represented on the board of directors of Morgan & Cie.

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The proposal was described more fully in an attached memorandum of January 14, 1964, from the Legal, Examinations, and International Finance Divisions, which discussed in some detail certain questions raised thereby; namely, (1) whether the interlocking employment relationship between Morgan Stanley and Morgan & Cie. would violate section 32 of the Banking Act of 1933, which prohibits any partner or employee of a securities company from serving at the same time as director, officer, or employee of any member bank, and (2) whether, in light of the traditional separation of commercial from investment banking, the Board might feel that the proposed stock acquisition and the proposed interlocking employment relationship would be inappropriate as a matter of policy under section 25(a) of the Federal Reserve Act and Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act. After exploring these two questions, the memorandum set out alternative courses of action that the Board might want to consider. However, in view of the letter of January 31 from Morgan Guaranty International withdrawing its proposal, the Legal Division recommended in the memorandum of February 5 merely that an acknowledgment letter be sent. A draft of such a letter was attached to the memorandum.

The memoranda of February 5 and January 14 also pointed out that consideration of the proposal of Morgan Guaranty International had brought to light the fact that Chase International Investment Corporation, New York, New York, a wholly-owned Edge Act subsidiary of Chase Manhattan Bank, had on its board a director (Andre Meyer) who was a senior partner

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in Lazard Freres & Co., New York, New York, a securities company within the meaning of section 32 of the Banking Act of 1933. A draft of letter had been prepared that would request Chase International to submit views regarding the possibility that service by Mr. Meyer on its board of directors might violate the letter or spirit of section 32.

At the Board's request, Mr. Shay reviewed the facts developed in the memoranda, following which he and Mr. Goodman responded to questions posed by members of the Board about various aspects of the Morgan Guaranty proposal. Mr. Goodman, in his comments on the matter, referred to the desirable economic objectives of the proposal, namely, to contribute to the announced objective of the U.S. Treasury to promote the development of the European capital markets and thereby to decrease the reliance of European governments and corporations on the New York market. If any aspects of the proposal were clearly illegal, he would have no question as to the position that the Board should take. However, he gathered that the matter was not free from doubt from a legal standpoint. Mr. Solomon observed that he saw in this situation the necessity to make a choice between, on the one hand, the desirable economic objectives mentioned by Mr. Goodman and, on the other hand, the desirable objective of preventing conflicts of interest. Mr. Hexter indicated that he tended to side with the view of Mr. Goodman since the legal argument was at least open to doubt; whether it would be sustained by the courts was at least questionable. When there was a situation where it seemed that a certain interpretation of the statute would accomplish what the

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Congress clearly intended, there was an incentive to follow such an interpretation, but here there seemed less incentive, from a policy standpoint, to stretch the language of the statute.

There followed further discussion of the legal question, and several members of the Board indicated that they would not be disposed to raise objection if the proposal should be resubmitted by the Morgan interests. In this connection, Mr. Goodman suggested that the Morgan interests may have been influenced in the direction of withdrawing the proposal by the flavor of discussions that had been held with the Board's staff. However, Messrs. Shay and Solomon stated that it had been the intent of the staff, in such discussions, only to indicate that in view of the nature of the proposal, including the section 32 question, it could hardly be passed upon at the staff level and would have to be brought to the Board's attention for such consideration as the Board might deem appropriate. Along this line, Governor Robertson referred to the capability of the Morgan interests, and the legal talent available to them, all of which suggested that the influence of staff comments alone probably would not have led to a withdrawal of the proposal and that there may well have been other considerations.

Since the proposal had been withdrawn voluntarily, it was the conclusion of the Board that the matter should be left in this posture and that a simple acknowledgment of the January 31 letter would be all that seemed necessary. However, if this proposal should be resubmitted, or if a substantially similar proposal should be submitted by Morgan

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Guaranty, it appeared that there would be a disposition on the part of most, if not all, of the members of the Board to interpose no objection.

It was also the consensus, with Governor Robertson expressing some reservations, that no action should be taken by the Board to inquire of Chase International Investment Corporation concerning the propriety of Mr. Meyer's serving as a member of its board of directors. This being the consensus, question was raised by Governor Mitchell as to whether it would be fair to Morgan Guaranty not to inform it in some way that the Board was not pursuing the Chase matter. Question also was raised as to what response might be made by the staff in the event the Chase matter should be referred to by the Morgan interests. However, it was pointed out that it should be evident to Morgan Guaranty, if Mr. Meyer continued to serve as a director of Chase International Investment Corporation, that the Board had not taken steps leading to termination of this relationship.

A copy of the letter sent to the Morgan Guaranty International Finance Corporation as the result of the foregoing discussion is attached as Item No. 2.

Messrs. Shay, Goodman, Doyle, and Poundstone then withdrew from the meeting and Mr. Broida, Assistant Secretary, and Mrs. Sette, Chief of Economic Editing, Division of Research and Statistics, entered the room.

Proposed interagency study. Governor Robertson reported on the status of the proposal by Chairman Barr of the Federal Deposit Insurance

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Corporation that the three Federal bank supervisory agencies establish a staff committee to work toward obtaining uniformity of computer usage in the examination process, along with uniformity of examination report and call report forms. He said that he had now been informed by Mr. Greensides of the Corporation that in discussing the proposal with the Comptroller of the Currency's Office it had been found that the Comptroller was only willing to agree to vote, as a member of the Corporation's Board, for the acquisition of a computer by the Corporation, provided it would be made available to the Comptroller for his use and provided it would be manned, operated, and programmed at the expense of the Corporation. The Comptroller was not willing to enter into any joint effort looking toward uniform call reports or examination reports. In light of this development, there was nothing at the present time for the Board to consider.

Review of Federal Reserve policy. There had been distributed a memorandum from Mr. Molony dated February 6, 1964, to which there was attached a draft of an article entitled "A Review of Federal Reserve Policy in the Fifteen Years 1949-63," by Mr. Hersey, Adviser in the Division of International Finance, that had been suggested for inclusion in the Board's Annual Report for 1963.

At the outset of discussion of the matter, Governor Mitchell said he had some editorial comments that he would give to Mr. Young. More fundamentally, however, he felt that it was important for the System to offer some rather sophisticated reply to criticisms of Federal

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Reserve policy such as those that had been made by Professor Friedman, and recently by Professor Meltzer before the Subcommittee on Domestic Finance of the House Banking and Currency Committee. The article proposed for inclusion in the Annual Report appeared to him to be a workmanlike job, but he doubted that it represented an effective response to criticisms such as those to which he referred. Therefore, he had raised with Mr. Young the question whether there was any way of converting the draft article so that it would constitute a more effective response. Thinking in terms of the Annual Report, he realized that timing presented a substantial problem in revising the article. Further, if approximately the present draft was included in the Annual Report and if another article more along the lines of what he had in mind was published subsequently, perhaps in an issue of the Federal Reserve Bulletin, this might give the appearance that the Board was going too far in its efforts at refutation of the academic criticisms.

There followed comments by Messrs. Molony and Young on the qualities of the Hersey draft, including its objectiveness, and on reasons why they felt that it would be appropriate, in connection with the fiftieth anniversary of the Federal Reserve System, for the Board's Annual Report to contain not only a report for the year 1963 but also a review of System policy over the postwar period.

Governor Mitchell then commented that, although he did not believe the article would be too effective in terms of refuting the

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current criticisms of System policy, he had no strong objection to its use and felt that a certain amount of editorial work would serve to meet his principal difficulties.

Governor Daane, in commenting on his reaction to the article, indicated that it gave him an impression of a lack of flexibility of System policy and procedures. As he read the manuscript, it failed to demonstrate that System policy had constantly evolved and had been adapted to changes in the economic and financial environment. He saw a need for substantial changes in the manuscript to give a different flavor to the dissertation--to portray a System that was pushing forward with strength rather than following a passive course.

After further discussion as to whether the views of Governor Daane, as well as those of Governor Mitchell, could be accommodated by editorial work on the manuscript within the time limitation imposed by the prospective date for issuance of the Annual Report, Governor Robertson initiated additional discussion of the question whether the article might not be more suitable for inclusion in an issue of the Federal Reserve Bulletin than in the Annual Report. Governor Daane indicated that he was inclined to sympathize with this view, and he mentioned also the possibility of the issuance of such a dissertation as a separate document, subject to revisions in the manuscript that would serve to remedy the difficulties that he found in the present draft. Governor Shepardson observed that his thinking was somewhat along the lines of that expressed by Governor Daane; he noted also

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that the Annual Report was already quite long, with a tendency toward repetition of coverage. Governor Balderston expressed the view that the manuscript would lend itself quite readily to modification along the lines suggested by Governor Daane. With this modification, he felt that the article would be of such quality as to deserve widespread distribution, which argued for its issuance as a separate publication. Chairman Martin then described advantages that he saw in incorporating an article of this general description in the Board's Fiftieth Annual Report. Such a procedure would be in line with generally accepted practice, whereas he had a little more doubt about the appropriateness and possible reaction to the issuance of such an article at the present time as a separate publication.

Mr. Young referred further to the possibilities of accomplishing through editing a modification along the lines that had been suggested, and at Chairman Martin's suggestion it was understood that Governors Mitchell and Daane would review an edited draft of the article to determine whether the objectives they sought could be substantially accommodated in that manner. If they were reasonably satisfied and concluded that the revised article was suitable for inclusion in the Annual Report, this could be done. If not, the idea could be dropped or referred back to the Board for further consideration.

The meeting then adjourned.

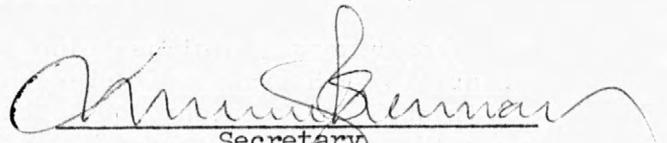
Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics,

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Governor Shepardson today approved on behalf of the Board the transfer of JoAnn Cannada from the position of Clerk-Stenographer in the Division of Administrative Services, to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from \$4,355 to \$4,690, effective the date of entrance upon duty.

With the approval of Governor Shepardson, a letter was sent today over the signature of Chairman Martin to The Honorable John W. Macy, Jr., Chairman of the Interdepartmental Savings Bond Committee, advising of the designation of Edwin J. Johnson, Director, Division of Personnel Administration, as alternate member for the Federal Reserve Board on the Committee coincidental to the beginning of a new Savings Bond campaign year.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
2/12/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1964



Mr. H. L. Fowler, President,
First Finance Company,
P. O. Box 318,
Nevada, Missouri.

Dear Mr. Fowler:

This refers to the request contained in a letter dated January 7, 1964, submitted through the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System as to the status of First Finance Co., Nevada, Missouri ("Company"), as a holding company affiliate.

From the information presented, the Board understands that Company is engaged in the small loan and consumer finance business; that it is a holding company affiliate by reason of the fact that it owns or controls 325-1/2 (65 per cent) of the 500 outstanding shares of stock of The First National Bank of Golden City, Golden City, Missouri; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Company 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 (12 U.S.C. 221a); and, accordingly, it 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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. H. L. Fowler

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If, however, the facts should at any time indicate that Company 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, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

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Item No. 2
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1964.

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

Gentlemen:

This will acknowledge your letter of January 31, 1964, requesting the Board to disregard your previous letter of September 10, 1963, which related certain proposals involving the acquisition by Morgan Stanley & Co. of a 20 per cent stock interest in your French subsidiary, Morgan & Cie., S. A., and the appointment of a Morgan Stanley representative to serve on the board of directors of Morgan & Cie.

The Board appreciates being advised that the outstanding stock of Morgan & Cie. was to be paid up in full on January 30, 1964.

Very truly yours,
(Signed) Merritt Sherman

Merritt Sherman,
Secretary.