

9/63

Minutes for February 28, 1964

To: Members of the Board

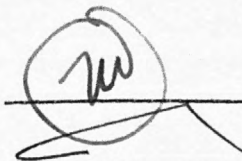
From: Office of the Secretary

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

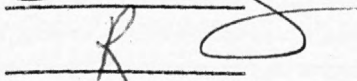
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

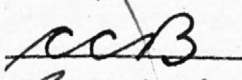
Chm. Martin



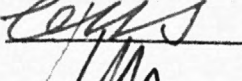
Gov. Mills



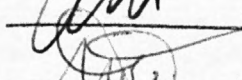
Gov. Robertson



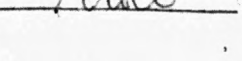
Gov. Balderston



Gov. Shepardson



Gov. Mitchell



Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, February 28, 1964. 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. Broida, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Noyes, Adviser to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and  
Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Koch, Associate Director, Division of Research  
and Statistics  
Mr. Partee, Adviser, Division of Research and  
Statistics  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Katz, Associate Adviser, Division of Inter-  
national Finance  
Mr. Spencer, General Assistant, Office of the  
Secretary  
Mr. Morgan, Staff Assistant, Board Members'  
Offices  
Mr. Axilrod, Chief, Government Finance Section,  
Division of Research and Statistics  
Mr. Eckert, Chief Banking Section, Division of  
Research and Statistics  
Mr. Gemmill, Economist, Division of International  
Finance

Money market review. There was distributed a table relating to  
monetary developments during the four-week period ended February 26, 1964.

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Mr. Axilrod presented a report on the money market, after which Mr. Eckert described developments with respect to bank credit, the money supply, and related matters, and Mr. Katz reported on foreign exchange market developments.

Mr. Young then reported on meetings that he had recently attended in Paris, France, of the Economic Policy Committee of the Organization for Economic Cooperation and Development and of Working Party 3.

Following these reports all members of the staff except Messrs. Sherman, Kenyon, Young, Noyes, Fauver, Hackley, Brill, Solomon, Morgan, and Spencer withdrew from the meeting and the following entered the room:

Mr. Johnson, Director, Division of Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Thompson, Assistant Director, Division of Examinations  
Mr. Hunter, Supervisory Review Examiner, Division of Examinations  
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 27, 1964, 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.

Circulated or distributed items. The following items, 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 Union National Bank in Houston, Houston, Texas, granting its request for permission to maintain reduced reserves. 1
- Letter to Morgan Guaranty Trust Company of New York New York, New York, approving the establishment of a temporary branch at 140 Broadway. 2
- Letter to Chase International Investment Corporation, New York, New York, granting its request for an extension of time to make further investments in Arcturus Investment & Development, Ltd., Montreal, Canada. 3
- Letter to the Federal Reserve Bank of Minneapolis approving the payment of salary to Harold G. McConnell as Vice President through March 1964. 4

In a comment in connection with Item No. 3, Governor Mills said a review of the portfolio of investments of Arcturus Investment & Development, Ltd., raised in his mind a question as to whether the organization had lived up to expectations. After noting some of the investments, he suggested that Arcturus apparently had not been moving ahead aggressively to use the maximum amount of funds authorized by the Board to be placed at its disposal. If this was symptomatic of other investment corporations, he felt that the situation did not reflect great credit on the operations of American firms in this field. The tendency seemed to be toward placing sums of money in investments that were not yielding attractive returns and were not of such a character as to contribute to the expansion of American foreign trade.

In reply, Mr. Goodman commented that one or two of the Arcturus investments represented the remains of an unfortunate Brazilian venture.



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In general, however, it was his impression that the Chase people were highly sophisticated in the field of foreign investment. They looked over prospective investments carefully and gave the appearance of being very careful in their activities.

Messrs. Conkling, Goodman, Hunter, and Poundstone then withdrew from the meeting.

Directors Day program. There had been distributed under date of February 26, 1964, a memorandum from Mr. Morgan with regard to the proposed program for Directors Day, March 18-19, 1964. The format for the program had evolved from discussions by a group composed of Governors Mills, Shepardson, and Daane, and Messrs. Fauver, Noyes, Brill, Sammons, and Morgan. A copy of the tentative program was attached to the memorandum.

In discussion, Governor Robertson questioned the desirability of including on the program the topic, "Current Controversial Issues in Bank Supervision," which he was listed to present. Perhaps a talk of the kind given by Mr. Solomon last year relating to the over-all bank supervisory picture might be more appropriate.

Governor Shepardson indicated that since there seemed to be a good deal of interest and concern with respect to certain conflicting interpretations of the bank supervisory agencies, the committee, in planning the tentative program, had felt that it might be appropriate to have a talk patterned along the lines of the letter recently sent to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations.

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Governor Mills commented that he believed there was a real interest in the issues that had arisen among the bank supervisory agencies. The letter to Chairman Fascell had highlighted certain problems that were not of the System's making but arose out of positions taken by the Comptroller of the Currency. The directors should be familiarized with the fact that the Board was standing on what it regarded as proper interpretations of the laws it was charged to administer.

After further discussion it was generally felt that if the topic were deleted the subject nevertheless was likely to be raised at some point during the program. It was agreed, however, that the word "controversial" should be omitted.

It was also agreed that the comments to be made by Mr. Cardon, Legislative Counsel, on the hearings currently being conducted by the Subcommittee on Domestic Finance of the House Banking and Currency Committee should be scheduled to precede the remarks by Chairman Martin that were to conclude the program.

It was understood that the proposed program, incorporating the changes suggested during the foregoing discussion, would be acceptable as a basis for making final arrangements.

Messrs. Brill and Morgan then withdrew from the meeting.

Question raised under section 20 of the Banking Act of 1933  
(Item No. 5). There had been distributed to the members of the Board two memoranda from the Legal Division dated February 26, 1964, with regard

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to the proposed acquisition by W. R. Grace & Co., New York, New York, a diversified industrial corporation, of C. J. Devine & Co., a dealer in Government and municipal securities. The first of the two memoranda, which dealt with legal aspects of the proposed transaction, pointed out that W. R. Grace & Co. owned 80 per cent of the stock of Grace National Bank of New York, New York City. Under the proposed transaction, C. J. Devine & Co., now a partnership, would be incorporated (Devine Corporation) and its stock acquired by W. R. Grace & Co. Thereupon, Grace & Co. would transfer to Devine Corporation the stock of Grace National Bank. In the opinion of the Legal Division, the crucial legal question arising from this proposal was whether the transaction would be prohibited by section 20 of the Banking Act of 1933, which provides that no member bank may be "affiliated in any manner described in section 2(b) hereof" with a corporation engaged principally in the underwriting of securities. The significant portion of section 2(b) defined "affiliate" to include any corporation "of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control...a majority of the shares of such bank...."

The essence of the question was whether Devine Corporation would be an "affiliate" of Grace National Bank within the meaning of section 2(b). If the proposed transaction were consummated, Devine Corporation would be controlled by W. R. Grace & Co. The latter would also control a majority of the shares of Grace National Bank, since Grace & Co. would own all of

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the stock of Devine Corporation, which in turn would own 80 per cent of the shares of Grace National Bank.

The memorandum stated that the Legal Division had concluded that the plan submitted to the Board would be prohibited by section 20 of the Banking Act of 1933. A proposed reply to W. R. Grace & Co. that would reflect this position was attached.

The second memorandum discussed the substantive merits (policy aspect) of the proposal, as distinguished from the question whether the proposed transaction was legally permissible. It was pointed out that the letter from W. R. Grace & Co. had stated that the attitude of the Board toward the transaction was of prime importance and that if it were disapproved in principle by the Board, neither Grace nor Devine would wish to proceed with the transaction. In view of this statement, the last two paragraphs of the draft of proposed reply touched upon the policy aspects of the proposal. However, if the Board concluded that the transaction would be prohibited by section 20, there might be no need to consider the policy aspects.

At the Board's request, Mr. Hexter commented on the matter, his remarks being based on the information contained in the distributed memoranda.

In an ensuing discussion, Governor Mills stated that he hoped the legal aspects of the proposal had not been construed too strictly and that the ultimate effects of the transaction had been taken sufficiently into account. While he would not undertake to dispute the legal



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findings, it was difficult for him to believe that the proposal was really contrary to the public interest. In this connection, he referred to the views expressed by Vice President Crosse of the New York Reserve Bank.

Secretary's Note: Vice President Crosse had taken the position, in a memorandum, that "it would be sound public policy to agree to this proposal only with the understanding that the dealer corporation would limit its business to that which the bank itself could do." In other words, since member banks may deal in United States obligations and general obligations of States and political subdivisions, Mr. Crosse saw no sound objection, in principle, to banks being affiliated with securities companies dealing only in the same categories of securities. However, the Legal Division pointed out that on several occasions the Board had refused to permit interlocking directorates between member banks and securities companies dealing in State and municipal obligations as well as U. S. Government securities. If the Board were to approve, as a matter of policy, affiliations between member banks and such companies, it would seem necessary for the Board also to permit interlocking directorates by amending Regulation R, Relationships with Dealers in Securities under Section 32 of the Banking Act of 1933.

The discussion that followed centered principally on the question whether the Board at this juncture should go beyond the legal aspects of the matter in its reply to W. R. Grace & Co. It was brought out that an indication that the Board would not find the proposal objectionable from a policy standpoint might encourage the Grace and Devine interests to

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develop some alternative plan in an effort to surround the legal difficulty. (A contrary indication would, of course, have the opposite effect.) On the other hand, it appeared that the Board would then be confronted with the question of amending Regulation R in respect to interlocking directorates between member banks and securities companies dealing in general obligations of States and municipalities as well as U. S. Government securities, and the Board had refused to do this several times in the past.

At the conclusion of the discussion, Chairman Martin indicated that he would not be prepared at this time to amend Regulation R, and other members of the Board expressed agreement. Accordingly, it was the conclusion of the Board that it would be desirable to reply to W. R. Grace & Co. on the basis of the legal considerations only. In other words, it was agreed that W. R. Grace & Co. should be advised merely that it was the Board's conclusion that the proposed arrangement would be prohibited by section 20 of the Banking Act of 1933. Consequently, the draft of letter to W. R. Grace & Co. was approved unanimously with the understanding that the last two paragraphs, which touched upon the policy aspects of the proposed transaction, would be deleted. A copy of the letter, in the form transmitted to W. R. Grace & Co., is attached as Item No. 5.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons in that Division, effective March 1, 1964:

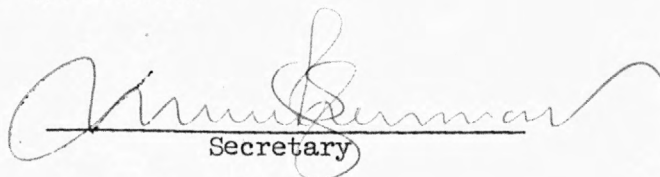
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Jill Francis, Statistical Clerk, from \$3,985 to \$4,215 per annum.

Frank de Leeuw, Economist, from \$12,880 to \$14,065 per annum.

Attached as Item No. 6 is a copy of a letter sent today over the signature of Chairman Martin to the Chairman of the Interdepartmental Committee on the Status of Women in reply to a request for a report on opportunities for women in the Board's organization.



Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

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Item No. 1  
2/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 28, 1964

Board of Directors,  
Union National Bank  
in Houston,  
Houston, Texas.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Union National Bank in Houston to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

684  
Item No. 2  
2/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 28, 1964

Board of Directors,  
Morgan Guaranty Trust Company  
of New York,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 140 Broadway, New York, New York, by Morgan Guaranty Trust Company of New York, to operate until such time as the removal of all departments to 23 Wall Street is completed, but no later than August 24, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

685  
Item No. 3  
2/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 28, 1964

Chase International Investment Corporation,  
One Chase Manhattan Plaza,  
New York, New York 10005.

Gentlemen:

Reference is made to your letter of February 7, 1964, transmitted through the Federal Reserve Bank of New York, referring to the Board's letter of February 1, 1963 (and previous letters) which authorized your Corporation, subject to various conditions, to make further investment in Arcturus Investment & Development, Ltd., ("Arcturus"), Montreal, Canada (in form of stock or obligations), up to an amount not to exceed US\$7,500,000. The Board's letter of February 1, 1963 extended to February 1, 1964 the time within which such investment might be made.

In accordance with your request and on the basis of the information furnished, the Board extends to February 1, 1965 the time within which further investment may be made in Arcturus (in form of stock or obligations), up to an amount which, with the existing investment, would not exceed US\$7,500,000.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 4  
2/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 28, 1964

CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President,  
Federal Reserve Bank of Minneapolis,  
Minneapolis, Minnesota. 55440.

Dear Mr. Deming:

As requested in your letter of February 20, the Board of Governors approves the payment of salary to Mr. Harold G. McConnell as Vice President of the Federal Reserve Bank of Minneapolis through the month of March 1964 in the amount of \$1,875.

It is noted that Mr. McConnell will be working one month beyond the normal retirement date after his attainment of age 65 during February.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 5  
2/28/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 28, 1964.

Mr. Felix E. Larkin,  
Executive Vice President,  
W. R. Grace & Co.,  
7 Hanover Square,  
New York 5, New York.

Dear Mr. Larkin:

This is in response to your letter of January 17, 1964, with respect to a plan involving the incorporation of the business of C. J. Devine & Co. (now conducted as a partnership) and the acquisition by W. R. Grace & Co. of all of the stock of the new corporation. Grace presently owns 80.07 per cent of the stock of Grace National Bank of New York, and that stock would be transferred to Grace's new subsidiary.

Your letter requested the "concurrence" of the Board of Governors of the Federal Reserve System, stating that the attitude of the Board toward the proposal is of prime importance in view of the specialization of Devine in the Government securities market. It also pointed out that Counsel for Grace and Devine have expressed the opinion that consummation of the plan would not give rise to any relationship prohibited by law, and their memorandum on the legal questions was enclosed.

After careful consideration, the Board has concluded that the proposed arrangement is prohibited by section 20 of the Banking Act of 1933 (12 U.S.C. 377), which provides that

"...no member bank shall be affiliated in any manner described in section 2(b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities...."

A major objective of the Banking Act of 1933, which is reflected in a number of its provisions, was to prohibit certain relationships between commercial banks and organizations engaged in investment banking. As stated by the Supreme Court of the United States, one purpose of Congress was to "abolish" securities affiliates



Mr. Felix E. Larkin

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that were under common control with a member bank. Agnew v. Board of Governors, 329 U.S. 441, 448 (1947). Upon consummation of the arrangement submitted for the Board's consideration, both Devine Corporation and Grace National Bank would be controlled by W. R. Grace & Co. Grace National Bank, of course, is a member bank, and under the Board's interpretation of section 20 the proposed Devine Corporation would be engaged principally in the activities enumerated therein.

The memorandum of your Counsel emphasizes that section 2(b) of the Banking Act of 1933 (12 U.S.C. 221a), as incorporated into section 20, applies to situations in which control of a securities company "is held...by the shareholders of a member bank". That memorandum points out that Grace itself would not hold the stock of Grace National Bank and contends that section 2(b), in view of its language, "is directed only to direct stockholders of the bank and not to indirect stockholders of the bank".

It is true that the term "shareholder" generally refers to direct holders of a corporation's stock. In a number of situations, however, courts have interpreted the term more broadly, where such an interpretation was necessary to effectuate the purpose of the statute under consideration. A leading decision is Anderson v. Abbott, 321 U.S. 349 (1944), where the Supreme Court interpreted provisions of the National Bank Act and the Federal Reserve Act that imposed double liability on the "shareholders" of an insolvent national bank. In order to give effect to the Congressional purpose, the Court held that "shareholders", in that context, included persons who held stock in a corporation which in turn held the stock of the bank. In the opinion of the Board, the reasoning that led to the decision of the Supreme Court in that case is at least equally applicable to the present situation.

It cannot be overlooked that, if Grace followed the natural course of simply acquiring the stock of Devine Corporation, section 20 clearly would be applicable. Seemingly, the sole purpose of the transfer of the stock of Grace National Bank from Grace to Devine Corporation would be to avoid the impact of that provision of law.

In view of the Board's conclusion that the proposed transactions are prohibited by section 20, it is not necessary to decide the other legal questions discussed in your Counsel's memorandum or the question whether, apart from issues of legality, the arrangement would be desirable as a matter of policy.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 6  
2/28/64

OFFICE OF THE CHAIRMAN

February 28, 1964.

The Honorable W. Willard Wirtz,  
Chairman, Interdepartmental Committee  
on the Status of Women,  
Room 1334, Main Labor Building,  
Washington, D. C. 20210

Dear Mr. Secretary:

In accordance with your letter of January 27, 1964, on the status of women, following is the report requested by February 28, 1964, on the Program for Equal Employment and Advancement Opportunities for Women at the Federal Reserve Board.

1. Our plans are to continue making available to women opportunities for advancement to higher level positions in the future.

2. Of significance, there have been a number of advancements of women resulting from greater responsibilities given them during the past year, with approximately 15 per cent of the employees in the higher-graded professional positions now being women. For example, in January 1964, two women economists were reclassified from grades comparable to GS-13 to GS-14, in which grade there were no women on December 31, 1963.

3. There is enclosed a count, by grade, as of December 31, 1963, of all women in the employ of the Board of Governors in positions comparable to Grade GS-12 and above, and with the percentage of women in relation to the total number of employees in each of these grade levels.

You can be assured that the President has firm support from the Board of Governors in this program.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure