

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, August 28, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Draper
Mr. Evans
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 24, 1950, were approved unanimously.

Minutes of actions taken by the Board of Governors of the Federal Reserve System on August 25, 1950, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated August 21, 1950, from Mr. Marget, Director of the Division of International Finance, recommending that Mrs. Florence R. Cox, a clerk-stenographer in the Division of Research and Statistics, be transferred to the Division of International Finance, as Secretary to Mr. Dembitz, Assistant Director of that Division, with an increase in salary from \$3,355 to \$3,475 per annum, effective September 3, 1950. The memorandum also stated that Mr. Young is agreeable to this transfer.

Approved unanimously.

Memorandum dated August 24, 1950, from Mr. Leonard, Director of the Division of Bank Operations, recommending that Mrs. Pearl S. Wade, a clerk-stenographer in the Division of Administrative Services, be transferred to the Division of Bank Operations as a clerk-stenographer,

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with no change in her present basic salary of \$2,970 per annum, effective September 3, 1950. The memorandum also stated that the Division of Administrative Services was agreeable to this transfer.

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending increases in the basic annual salaries of the following employees in those divisions, effective September 3, 1950:

<u>Date of Memo</u>	<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
			<u>From</u>	<u>To</u>
<u>ADMINISTRATIVE SERVICES</u>				
8/25/50	Mrs. Mary Sanders	Assistant Supervisor, Stenographic Section	\$3,195	\$3,225
<u>LEGAL DIVISION</u>				
8/25/50	Evelyn W. Edwards	Secretary to Mr. Solomon	3,350	3,475
	Jean Crosby	Secretary to Mr. Baumann	3,475	3,600

Approved unanimously.

Memoranda from the heads of the divisions indicated below recommending increases in the basic annual salaries of the following employees in those divisions, effective September 3, 1950:

<u>Date of Memo</u>	<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
			<u>From</u>	<u>To</u>
<u>ADMINISTRATIVE SERVICES</u>				
8/24/50	H. M. Ott	Supervisor	\$4,200	\$4,450
	L. L. Ball	Assistant Supervisor	3,850	4,075
	M. P. Flagg	Telegraph Operator	3,850	4,075
	Leroy H. Cooley	Telegraph Operator	3,195	3,350
	Howard W. Kushner	Telegraph Operator	3,035	3,100
	G. L. March	Telegraph Operator	3,355	3,600
	W. S. Pool	Telegraph Operator	3,355	3,600

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<u>Date of Memo</u>	<u>Name</u>	<u>Title</u>	<u>Salary Increase</u>	
			<u>From</u>	<u>To</u>
<u>PERSONNEL ADMINISTRATION</u>				
8/25/50	Mrs. Margaret H. Wolverton	Personnel Clerk	\$3,725	\$3,825
	Mrs. Lois L. Waller	Clerk-stenographer	3,130	3,195
	Gena Gander	Clerk-stenographer	2,730	2,875
	Barbara L. Ashford	Leave Clerk	2,530	2,650

Approved unanimously.

Memorandum dated August 25, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Mrs. Mildred D. Spano as a clerk-stenographer in that Division, with basic salary at the rate of \$2,650 per annum, subject to a satisfactory investigation of references, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. McConnell, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"In view of the information submitted with your letter of August 24, 1950, and the additional information given Mr. Millard by telephone on August 25, the Board of Governors gives its written consent pursuant to Section 12B(v)(4) of the Federal Reserve Act, as amended, to the proposed assumption of the deposit liabilities of the American Exchange National Bank, Virginia, Minnesota, by the State Bank of Virginia, Virginia, Minnesota, with the understanding that the present capital stock of the State Bank of Virginia is to be increased \$100,000 and the present surplus of the State Bank of Virginia is to be increased \$100,000."

Approved unanimously.

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Letter to the Presidents of all Federal Reserve Banks,
reading as follows:

"This letter supersedes the Board's letter of November 10, 1947, (S-997) regarding fidelity coverage.

"The Federal Deposit Insurance Corporation as an insurer of deposits is directly concerned with the amount of fidelity coverage carried by an insured bank. As a matter of fact, the Corporation is empowered by law to require any insured bank to provide such protection and if the bank refuses to comply with the requirement to contract for the coverage and assess the cost against the bank.

"In a letter dated August 25, 1947, the FDIC requested each insured bank, which had not already done so, to provide the amount of coverage recommended by the Insurance and Protective Committee of the American Bankers Association as 'Fair'. The FDIC subsequently issued instructions to its examiners to request, wherever necessary, that this level of coverage be provided. It also requested the cooperation of the Comptroller of the Currency and the Federal Reserve to the end that all insured banks meet such standard.

"The June 1950 Protective Bulletin issued by the American Bankers Association contains the report of its Insurance and Protective Committee relative to the revision of the schedule of Blanket Bond Coverage. Instead of having minimum and fair amounts as heretofore, the revised schedule suggests a range of minimum amounts of Blanket Bond Coverage according to deposit size. A copy of the Bulletin was forwarded to the officer in charge of examinations at each Reserve Bank on June 13, 1950.

"The Board is in agreement that all banks should provide adequate amounts of Blanket Bond Coverage and that, in this connection, the schedule suggested by the bankers' own committee should be a useful guide in making a determination as to the appropriate minimum amounts of coverage in relation to the exposure involved.

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"Comments in Reports of Examination

"The Board requests that the Reserve Banks endeavor to see that each State member bank provides such coverage as may be appropriate and feasible in the circumstances and, in any event, at least the minimum amount of coverage suggested by the ABA Committee. In this connection it will be noted that the revised schedule contemplates that appropriate amounts of suggested minimum coverage may be arrived at by interpolation. In order that the treatment in reports of examination may be the same at all Reserve Banks, a table has been prepared for the use of your examiners in arriving at the appropriate amounts of Blanket Bond Coverage for banks of various sizes. A supply of the tables will be forwarded to the officer in charge of examination at your bank.

"In subsequent reports of examination of State member banks having Blanket Bond Coverage below the minimum amounts recommended by the ABA Committee, it is suggested that a statement along these lines be included on page 19, under 'Comments':

'The Insurance and Protective Committee of the American Bankers Association suggests Blanket Bond Coverage of approximately \$ _____ as a minimum amount for a bank of this size.'

"Where there is a material deficiency in the amount of Blanket Bond Coverage, appropriate comments should be included on page 2 of the examination report and in the letter of transmittal requesting corrective action.

Deductions in Arriving at Deposit Base

"Attention is called to the notation on the ABA schedule regarding deductions to be made for balances in U. S. Treasury Tax and Loan Accounts and for deposits at branches in arriving at the deposit base. We are advised that, in the case of banks with branches, the total amount of deposits at the largest office in the branch banking institution (whether it be the head office or one of the branches) should be used as the deposit base in arriving at the appropriate amount of fidelity coverage. In this connection, it is requested that all reports of examination of banks with branches show the amount of deposits at each branch on page 16 if now shown on the follow sheets to page 1(a) of the report.

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"Study of Defalcations and Fidelity Coverage

"The Board of Governors, the Comptroller of the Currency and the Federal Deposit Insurance Corporation have agreed to cooperate in gathering a fund of data regarding irregularities in insured banks of all types. The statistical data thus obtained will be available to each of the interested Federal bank supervisory agencies. The Board has agreed to furnish to the extent available, in connection with each defalcation in State member banks reported by the Board to the Attorney General of the United States, certain basic information on comparatively simple forms. In order to facilitate the preparation of these forms, it will be appreciated if you will include to the extent practicable, in future reports of possible criminal violations, pursuant to the Board's letter of August 19, 1948, (S-1033; F.R.L.S. #6503) information as to (1) name(s) of persons involved, title or position; (2) how discovered; and (3) nature of irregularities including inception date or period.

Audit and Control Practices and Procedures

"Although important, the provision of fidelity and other insurance protection is no substitute for appropriate internal safeguards. It is requested, therefore, that examiners be instructed to be especially vigilant in reviewing the audit and control practices and procedures in effect in each State member bank examined and include appropriate comments on pages 2 and 16 where the internal safeguards are not regarded as satisfactory.

"In cases where defalcations have come to light between examinations, it is requested that the examiners be instructed to include detailed comments in the confidential section as to (1) the procedure through which the defalcation was effected and (2) the changes made or to be made in the audit and control practices of the bank with a view to the prevention of similar occurrences in the future. Where the inclusion of such information would delay the submission of the report of examination or would otherwise be impracticable, it is suggested that the Division of Examinations be advised by letter or memorandum when the information becomes available."

Approved unanimously.


Secretary.