Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, December 6, 1951. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Powell

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Townsend, Solicitor
Mr. Young, Director, Division of Research and Statistics
Mr. Sloan, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Thompson, Federal Reserve Examiner, Division of Examinations

There were sent to the members of the Board yesterday afternoon copies of a memorandum dated November 30, 1951, from the Division of Examinations concerning an application by Marine Midland Corporation, Jersey City, New Jersey, for a general voting permit covering the controlling stock of The National Chautauqua County Bank of Jamestown, Jamestown, New York. The memorandum stated that the Corporation had requested that the voting permit be issued by December 10, 1951.

Mr. Evans stated that the Secretary of the Board yesterday afternoon had informed him in a general way (as member of the Board having the assignment of the issuance and revocation of voting permits) of the
nature of the application by Marine Midland Corporation, but that the memorandum from the Division of Examinations did not reach him until late in the day, and that the matter had not previously been brought to his attention or discussed with him notwithstanding the fact that Mr. Bayard F. Pope, Chairman of Marine Midland Corporation, in a letter dated September 7, referred to a previous visit to the Board's offices, and mentioned the progress to that date with respect to the plans of the Corporation for issuance of preferred stock and for the possible purchase of The National Chautauqua County Bank and the Syracuse Trust Company, of Syracuse, New York. Mr. Evans said that in view of the importance of the application which, as set forth in the memorandum from the Division of Examinations, involved questions under the Clayton Act, he felt the matter should have been brought to his attention while he was in Europe. He went on to say that he wished to investigate thoroughly the Clayton Act aspects of the matter as well as the desirability of granting a voting permit to a corporation which already controlled a large number of banks in its territory, and that in view of the short period of time since he first learned of the application, he was not prepared at this time to make a recommendation to the Board, except that Marine Midland Corporation be advised that the Board would not be able to make a decision with respect to the issuance of the voting permit by the date requested.
Mr. Vardaman stated that this illustrated the need for adopting a suggestion that he had made several times during his service as a member of the Board, that an arrangement be made to notify all of the members of the Board of important matters which had been submitted to the Board and were under consideration. He said that although he believed in concentration of responsibility, failure to inform Board members in such cases created embarrassment where a pending matter was brought to the attention of a member of the Board by an outside party. This would be avoided, he felt, if there were maintained a general information docket, to be read at each meeting of the Board, listing items of importance which had been received for consideration and indicating the persons to whom they had been assigned for study and recommendation to the Board.

During the ensuing discussion Chairman Martin stated that Mr. Vardaman's suggestion would be taken under advisement with a view to working out a satisfactory procedure.

Upon inquiry by Chairman Martin, Mr. Sloan stated that it appeared that Marine Midland Corporation wanted a decision by the Board on the issuance of a general voting permit by December 10 for the reason that they desired to call a stockholders' meeting at an early date to consider consolidation of The National Chautauqua County Bank of Jamestown with the Corporation's other subsidiary bank in that city,
the Union Trust Company, on or about December 31, 1951. He stated, however, that he knew of no important reason from the standpoint of the banks concerned or the public interest why a decision regarding the issuance of the permit necessarily would have to be made by December 10.

Mr. Evans then stated that he would study the various aspects of the application and discuss them with the staff, and that he felt he could be prepared to make a recommendation to the Board on or before December 14.

It was suggested that in the circumstances a decision on the matter be deferred pending Mr. Evans' recommendation, and that a telegram be sent to the Federal Reserve Bank of New York requesting that Marine Midland Corporation be informed that it would not be possible for the Board to act upon the application by December 10, but that advice of the Board's action would be transmitted as soon as possible.

This suggestion was approved unanimously.

At this point Messrs. Thurston, Assistant to the Board, Leonard, Director, and Horbett, Assistant Director, Division of Bank Operations, joined the meeting, and Messrs. Sloan, Hostrup, and Thompson withdrew.

Before this meeting there was sent to each member of the Board a copy of a memorandum dated December 4, 1951, from Mr. Horbett which
referred to steps taken by Mr. Powell and the staff since November 5, 1951, the date of a previous memorandum to the Board from Messrs. Thomas and Horbett, with respect to a proposed study of the effect of excess profits taxes on the ability of banks to improve their capital positions out of earnings and to attract new capital.

At Chairman Martin's request, Mr. Powell commented on the memorandum, which stated that as a result of a number of meetings with representatives of other bank supervisory agencies, the Treasury Department, the Bureau of the Budget, the American Bankers Association, and the National Association of Bank Auditors and Comptrollers, it was now proposed that a letter in the form attached be sent to the Federal Reserve Banks requesting that they collect necessary factual data from a group of approximately 1,500 member and nonmember banks by means of a confidential tax questionnaire. Attached to the memorandum were a copy of the questionnaire, a draft of proposed letter to be sent by the Federal Reserve Banks to the selected member and nonmember banks, and a draft of letter to be sent from the American Bankers Association to the selected banks. The memorandum went on to say that it was contemplated that the Reserve Banks would collect and edit the data contained in the completed questionnaires, that the data would be tabulated at the Board's offices, that all of the analyses would be made by the Board's staff in consultation with an ad hoc System subcommittee consisting of Vice Presidents Thompson, Armistead,
and Mitchell, of the Federal Reserve Banks of Cleveland, Richmond, and Chicago, respectively, and Mr. Horbett, and that the resulting statistics and analyses would not be available to bankers' groups unless and until they were first made available to the Treasury Department, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. The memorandum recommended that the Board approve the proposed arrangements subject to the approval of the Bureau of the Budget and satisfactory clearances from the Treasury Department, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation; and that the staff be authorized to make minor and technical changes in the questionnaire, instructions, letters, and procedures if that should be found necessary in the light of further suggestions.

In his comments, Mr. Powell referred to the recommendation by the Conference of Reserve Bank Presidents at their meeting with the Board on October 4, 1951, that the Board consider with representatives of other bank supervisory agencies the taxation of banks, particularly as related to their ability to improve their capital positions out of earnings and to attract new capital funds, and to discussion of the subject by the Board at a meeting on October 15. He said that since then discussions participated in by representatives of the Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Treasury Department, and the Budget Bureau had
resulted in general agreement on the form of questionnaire and the desirability of collecting information by that means from all of the larger banks and a sample of the smaller banks, with the understanding that none of the agencies concerned had taken any position as to the desirability of any change in the law, but that they merely wished to accumulate information on which to base a judgment.

Chairman Martin referred to discussions which he had had following the meeting of the Board on October 15, and stated that he thought the approach suggested by Mr. Powell and the staff was a highly desirable one.

In response to questions by other members of the Board, Mr. Powell stated that the study was not intended to do more for the present than to collect, tabulate, and analyze information supplied by the banks, and that it was understood by representatives of the other bank supervisory agencies concerned that the individual questionnaires returned by banks would not be furnished to them, but that the tabulations of the information contained in the questionnaires might be reviewed with representatives of the other agencies. In response to an inquiry by Mr. Szymczak as to the attitude of State banking authorities toward the study, Mr. Horbett said he understood the National Association of Supervisors of State Banks was aware of the proposed study and had indicated informally that it felt it should be made.

Chairman Martin then suggested that the Board approve the study in the light of the discussion at this meeting.
This suggestion was approved unanimously, and in accordance with this action unanimous approval was given to the following letter to the Presidents of all Federal Reserve Banks:

"There is enclosed a 'Confidential Tax Questionnaire' together with related instructions, drafted for use in obtaining data relating to excess profits taxes from a selected sample of insured commercial banks.

"You will recall that the subject of taxation of banks, particularly as related to their ability to improve their capital positions out of earnings and to attract new capital, was discussed at the joint meeting of the Board and the Presidents of the Federal Reserve Banks on October 1. At a later meeting of the Board it was suggested that, in view of the System's interest in the adequacy of banking capital, it should make or participate in making a factual study of the impact of excess profits taxes on banks, and the staff was directed to look into the matter. This letter and the enclosures are the result of various conferences between representatives of the Board's staff and those of other bank supervisory agencies, bankers' groups, the Treasury, and the Budget Bureau. This is brought out in the enclosed draft of a suggested letter to be sent by the Federal Reserve Banks to the selected sample member and nonmember banks, as well as in the enclosed draft of a letter from the American Bankers Association to the sample banks.

"The sample banks to be covered in the study are being selected at the Board; a list of such banks in your district will be sent to you under separate cover. The list will comprehend all insured commercial banks (except the relatively few with preferred stock or capital notes and debentures) with total capital accounts on June 30, 1951, of $4,000,000 or more, and around 10 per cent random samples of the remaining banks stratified by size of total capital accounts.

"It is realized that some of the sample banks, particularly those that have not had to pay excess profits taxes in the past, may have some difficulty in completing certain portions of the questionnaire. Accordingly, as indicated in
"the enclosed draft of the letter to the banks, it is suggested that the banks that need assistance consult their correspondents or representatives of the National Association of Bank Auditors and Comptrollers, which is cooperating in the study. A list of selected NABAC consultants in your district, who will be available free of charge if assistance is necessary, as well as for consultation by your Bank, is enclosed. For your use in connection with questions that may be raised by the banks, there are enclosed two copies of the 1950 forms of Federal tax returns (Form 1120, Schedule N, and Schedule EP).

"In view of the desirability of completing the study as soon as practicable, it will be appreciated if you will have the forms, related instructions, etc., duplicated at your Bank. Upon receipt of the lists of sample banks, please forward copies of the forms, instructions, and list of consultants to each sample bank as promptly as possible, with the request that the data be supplied to your Bank within ten days, if practicable. At the end of this time, banks which have not replied should be followed up, preferably by telephone. Please inform the Board, at the end of fifteen days, if practicable, of the names of all sample banks which apparently are not going to complete the forms. It is essential that completed questionnaires be received from as many as possible of the selected banks.

"Tabulations, estimates, and analyses will be prepared in Washington; no regional tabulations or releases should be made without prior clearance with the Board. The completed forms should, however, be carefully edited at the Reserve Banks; editing instructions will be forwarded shortly. Since it is desired that the study be completed early in February, we will need to have the completed and edited forms by the end of the year, if possible.

"The System's participation in this study will be under the general direction of an ad hoc System subcommittee, in accordance with arrangements made with Mr. Erickson, Chairman of the Committee on Research and Statistics of the Presidents' Conference. This committee consists of Mr. Thompson, Vice President, Federal Reserve Bank of Cleveland;
"Mr. Armistead, Vice President, Federal Reserve Bank of Richmond; Mr. Mitchell, Vice President, Federal Reserve Bank of Chicago; and Mr. Horbett, Assistant Director, Division of Bank Operations, Board of Governors. It is suggested that any questions pertaining to the collection and editing of the forms be taken up directly with Mr. Horbett."

Mr. Powell referred to a letter dated November 19, 1951, from President Young of the Federal Reserve Bank of Chicago, requesting that the Board approve the employment by that bank of Mr. Roland I. Robinson, Professor of Finance at Northwestern University, to prepare a background statement of the effect of taxes on bank earnings in relation to the policies of regulatory agencies to afford stockholders the measure of protection required by the character of bank investments and loans.

Mr. Powell noted that Mr. Robinson was an expert in this field, that the paper to be prepared would be helpful to the Reserve Bank in discussions with Illinois State banking authorities who have been studying bank capital standards, and that the cost of the study probably would not be more than $100. He recommended that the Board interpose no objection to the employment of Mr. Robinson to prepare the paper in question.

This recommendation was approved unanimously.

At this point all of the members of the staff with the exception of Messrs. Carpenter, Sherman, and Kenyon withdrew, and the action
stated with respect to each of the matters hereinafter referred to
was taken by the Board:

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on December 5, 1951, were approved unanimously.

Memorandum dated December 5, 1951, from Mr. Allen, Director,
Division of Personnel Administration, recommending that Thomas N.
Buckley, Telegraph Operator in the Division of Administrative Serv-
ices, who was recalled to Naval service on August 11, 1950 and will
be eligible for release from service about the middle of December,
1951, be reemployed if he desires to return to the Board within 90
days after his regular release from the service, but that he not
be granted a requested extension of six months' duty because of the
policy of the Board dated August 7, 1950, relating to employees of
the Board entering service in the Armed Forces, which states speci-
cically that benefits of reemployment will not apply to employees
who voluntarily remain in the service longer than required under the
service acts.

Approved unanimously.

Memorandum dated December 3, 1951, from Mr. Leonard, Direc-
tor, Division of Bank Operations, recommending for reasons stated
therein, that Miss Loretta M. Goheen, Supervisor of the Federal Re-
serve Bank Statement Unit in that Division, be granted sick leave
from December 21, 1951 through June 30, 1952, with the understanding that such leave would not be charged to sick leave subsequently accruing.

Approved unanimously.

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

"Reference is made to your letter of November 29, 1951, requesting permission to defer examination of The Northern Trust Company, Chicago, Illinois, until early in January 1952.

"It is noted that the State supervisory authorities will be unable to participate in an examination of the member bank within the current year but wish to make a joint examination immediately after the first of the year. It is understood, also, that independent examination by either the Reserve Bank or the State authorities would be difficult because of the manpower required.

"In the circumstances, and in view of your opinion that the excellent record of the member bank indicates no need for an immediate examination, the Board of Governors will interpose no objection to deferment of the examination as proposed."

Approved unanimously.

[Signature]

Secretary.