Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, November 17, 1952. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Evans
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Vest, General Counsel
Mr. Allen, Director, Division of Personnel Administration
Mr. Sloan, Director, Division of Examinations
Mr. Chase, Assistant Solicitor
Mr. Hackley, Assistant General Counsel

Before this meeting there had been sent to the members of the Board copies of a memorandum dated November 7, 1952, from Messrs. Chase and Hackley regarding a certification made to the Board by the Comptroller of the Currency, in accordance with section 30 of the Banking Act of 1933, of certain facts alleged to constitute violations of law and unsafe or unsound banking practices by named directors and officers of the City National Bank of Fort Smith, Fort Smith, Arkansas. Attached to the memorandum were copies of the certificate and accompanying exhibits, including warnings delivered to the named directors and officers of the bank by the Comptroller on March 8 and July 10, 1951. The certificate, dated October 23, 1952, had been sent to the Board with the Comptroller's letter of the same date.

The memorandum commented on the statute authorizing removal proceedings, the facts certified by the Comptroller, and considerations affecting the question whether proceedings should be instituted. It stated that the facts certified by the Comptroller as constituting unsafe and unsound practices had been discussed with the Division of Examinations and that that Division was of the opinion that the facts, if true, would constitute unsafe and unsound practices.

The memorandum further stated that in the opinion of Messrs. Chase and Hackley, the certificate of the Comptroller, insofar as it related to alleged violations of law and unsafe or unsound banking practices which had continued after previous warning by the Comptroller to discontinue the identical or similar violations or practices, constituted a sufficient legal basis for instituting proceedings under section 30; that even though the transactions which would be the basis of the charges, when taken separately, were not all very substantial, they would seem to be sufficient, when taken together, to justify the Board in deciding, in its discretion, to institute the proceedings; and that, moreover, the certificate of the Comptroller contained information regarding the very unsatisfactory experience of his Office in attempting to cause the bank to manage its affairs properly, and this information, although it could not be used as the legal basis for instituting proceedings or for issuing a removal order under section 30, nevertheless might be taken into account by the Board in deciding, in its discretion, first, whether to institute the proceedings and, second, assuming that a removal order would be legally justified, whether the Board would wish to issue such an order.

In response to Chairman Martin's request for comment, Mr. Sloan said that the City National Bank had total assets of $7.3 million, deposits of about $6.7 million, and capital accounts of about $600,000, that while its risk asset ratio was rather low, other capital ratios were not badly out of line, that the bank was not insolvent, according to the examiner's report, and that the criticisms of the Comptroller of the Currency related chiefly to certain practices of the management.

Mr. Vest described the legal basis for certification of a bank by the Comptroller under section 30 and the procedures involved, stating that it remained within the discretion of the Board to determine whether to ask the named directors and officers to show cause why they should not be removed from office.

Governor Robertson said that the City National Bank had been on the Comptroller's list of problem banks for a long time, that the management had been given several extensions of time in which to effect correction of unsatisfactory practices, that it seemed impossible to obtain corrective action, and that in the circumstances it appeared that the Comptroller had no alternative but to certify the case to the Board. Governor Robertson expressed the opinion that the Board should act promptly to send out notices of a hearing to be held in St. Louis, Missouri, in 30 days.

There was a discussion of who might be selected to serve as hearing officer and it was stated that Mr. James A. Purcell, a hearing examiner for the Federal Trade Commission, might be available for this purpose.

Governor Robertson considered it possible that the matter would never come to a hearing since he felt that the bank's President, Mr. H. S. Nakdimen, who is the majority stockholder, might dispose of his interest in the bank upon learning that proceedings had been instituted by the Board.

In response to a question, Mr. Vest said that according to the Administrative Procedure Act, a member of the Board could act as hearing officer but a member of the staff of the Board or a Federal Reserve Bank could serve in that capacity only if he was qualified with the Civil Service Commission.

Governor Mills inquired who would be responsible for securing new directors and officers to manage the City National Bank if the Board should order the removal of the named directors and officers, and Governor Robertson responded that, if necessary, the Comptroller of the Currency would be forced to appoint a conservator for the institution.

Governor Vardaman said he would like the record to show that in the early 1920s (about 1923-1926) he was in the investment business in St. Louis in partnership with a Mr. W. J. Echols, who was also President of the Merchants National Bank in Fort Smith, Arkansas. Governor Vardaman said that he was interested in the bank at that time and worked closely with Mr. Echols, whom he understood was now deceased. The Merchants National Bank was in competition with the City National Bank, the President of which was Mr. I. H. Nakdimen, now dead. If this Mr. Nakdimen were now alive, Governor Vardaman felt he would have to disqualify himself from sitting with the Board in its consideration of the proposed section 30 proceeding because, as an active competitor, he formed certain conclusions which would preclude his unbiased consideration of the matter. However, in view of the fact that both Mr. Echols and Mr. Nakdimen were dead and inasmuch as he did not recollect ever having met the Mr. H. S. Nakdimen named in the Comptroller's certificate, he felt he could sit with the Board in this case.

Governor Vardaman also stated that there was another phase of the matter that he would like to discuss in executive session.

Thereupon, it was voted unanimously to cause to be served on the directors and officers of the City National Bank of Fort Smith, Fort Smith, Arkansas, named in the certificate of the Comptroller of the Currency a Notice of Hearing as follows:

"UNITED STATES OF AMERICA
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

IN THE MATTER OF

Hudson Cooper, G. L. Grant, Arthur F. Hoge
and Gus Krone, Directors, and
H. S. Nakdimen, President and Director, and
W. B. Fitch, Vice President, Cashier and Director
of CITY NATIONAL BANK OF FORT SMITH,
Fort Smith, Arkansas.

NOTICE

I

Pursuant to the provisions of Section 30 of the Banking Act of 1933, as amended (12 U.S.C. 77), Preston Delano, Comptroller of the Currency, being of the opinion that you, Hudson Cooper, G. L. Grant, Arthur F. Hoge and Gus Krone as directors, and H. S. Nakdimen and W. B. Fitch as directors and officers of the City National Bank of Fort Smith, Fort Smith, Arkansas, have continued to violate provisions of law relating to such bank and have continued unsafe and unsound practices in conducting the business of "such bank, after having been warned by the Comptroller of the Currency to discontinue such violations of law and such unsafe or unsound practices, has certified to the Board of Governors of the Federal Reserve System that:

VIOLATIONS OF LAW

1. A loan was made by the bank to the Pharr Canning Company in the early part of 1952 in an amount which exceeded 10 per cent of the bank's capital and surplus, in violation of R. S. 5200 (12 U.S.C. 84).

2. A loan in the amount of $650 was made by the bank on March 21, 1949, to the Oklahoma-Arkansas Telephone Company, an affiliate of the bank, which was not secured as required by Section 23A of the Federal Reserve Act (12 U.S.C. 371c).

3. A loan in the amount of $23,000 was made by the bank on September 25, 1950 to the Oklahoma-Arkansas Telephone Company, an affiliate of the bank, which was not secured as required by Section 23A of the Federal Reserve Act (12 U.S.C. 371c).

4. An advance of $3,800 was made by the bank to the Oklahoma-Arkansas Telephone Company by carrying that amount in cash items from April 2, 1952 to April 26, 1952 in violation of Section 23A of the Federal Reserve Act (12 U.S.C. 371c) and of Paragraph Seventh of R. S. 5136 (12 U.S.C. 24).

5. An advance of $1,082.98 was made by the bank to KWHN Broadcasting Company, Inc., an affiliate of the bank, by permitting an overdraft in that amount on February 11, 1952 in violation of Section 23A of the Federal Reserve Act (12 U.S.C. 371c), and Paragraph Seventh of R. S. 5136 (12 U.S.C. 24).

6. An unsecured loan in the amount of $2,000 was made by the bank on November 8, 1951, and an unsecured loan in the amount of $13,500 was made by the bank on November 19, 1951 to the Buell Ranch Land and Development Company, an affiliate of the bank, in violation of Section 23A of the Federal Reserve Act (12 U.S.C. 371c).

"7. A loan in the sum of $2,500 was made by the bank to President Nakdimen on January 8, 1952 without the prior approval of a majority of the entire Board of Directors, in violation of Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a).

8. Advances in the amount of $1,170.25 were made by the bank to President Nakdimen in the form of personal checks carried in cash items at the time of the April 1952 examination by national bank examiners, in violation of Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a) and Paragraph Seventh of R.S. 5136 (12 U.S.C. 24), in that it made the total indebtedness of President Nakdimen to the bank exceed $2,500 and in that the approval of a majority of the entire Board of Directors was not obtained.

9. On a date between February 18, 1952, and April 16, 1952, a loan of $175 was made by the bank to its Vice President and Cashier, W. B. Fitch, without the approval of the entire Board of Directors, in violation of Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a).

10. A report with respect to KWHN Broadcasting Company, Inc., an affiliate of the bank, was neither furnished to the Comptroller of the Currency nor published in connection with the report of condition called for on April 14, 1952, in violation of Section 5211 of the Revised Statutes (12 U.S.C. 161).

11. As of July 28, 1952, the date of the most recent examination of the bank by national bank examiners, no examination or audit of the trust department by a committee of directors had been made since May 4, 1950, on which date an examination was made by three active officers of the bank, in violation of Section 8 of Regulation F of the Board of Governors of the Federal Reserve System both with respect to the making of the examination by active officers of the bank, and with respect to the lapse of time without examination or audit.

UNSAFE OR UNSOUND PRACTICES

12. Although the Directors were aware of the poor condition of the bank and their responsibility to the bank, only two directors'

"meetings were held between January 29, 1952 and July 28, 1952, the date of the most recent examination of the bank by national bank examiners.

13. At the time of the most recent examination by national bank examiners as of July 28, 1952 the direct liability of directors to the bank was $65,845.01, consisting entirely of unsecured advances.

14. The bank has large amounts of loans and overdrafts classified as substandard, doubtful and loss, which result from the unsafe and unsound manner in which the bank's credit policies have been handled. Adequate corrective action has not been taken, although this matter has been repeatedly called to the attention of the Board of Directors by national bank examiners.

15. The bank fails to keep detailed records of its operations, particularly with regard to cash items, thereby impeding verification of the bank's books.

16. The bank has not discontinued the practice of 'holding over' cash items for an unreasonable length of time, although it has been repeatedly requested and warned by national bank examiners to discontinue the practice.

17. In a letter dated August 7, 1951, signed by Directors C. C. Davis, W. B. Fitch, G. L. Grant, Arthur F. Hoge, Gus Krone, and H. S. Nakdimen, certain untrue or misleading information was furnished the Comptroller of the Currency regarding -

(a) The payment in cash of notes of Virginia B. Whiteside and Myra O. Brown.

(b) Alleged negotiations to dispose of the properties of the Oklahoma-Arkansas Telephone Company.

(c) The ceasing of kiting operations.

(d) The elimination of all violations of law except the Oklahoma-Arkansas Telephone Company.

"(e) The payment of all items over $300 on the date on which received and the keeping of a Cash Item record.

(f) Alleged negotiations by Frank Cohen to liquidate his note.

(g) The question whether a Discount Committee was functioning and a record was being kept.

18. Transactions involving the checks described below drawn by the Oklahoma-Arkansas Telephone Company, an affiliate of the bank, of which President Nakdimen was also president, were handled in such a manner as to constitute unsafe or unsound practices in that said checks were deposited when the accounts on which they were drawn did not contain sufficient funds with which to meet them (in the following list City National Bank of Fort Smith is referred to as 'Fort Smith', Central National Bank of Poteau is referred to as 'Poteau', and State National Bank of Heavener is referred to as 'Heavener'):

Date Check Deposited	Amount of Check	Drawn On	Deposited In
Dec. 30,'50	$6,000.00	Poteau	Fort Smith
Jan. 2,'51	$6,000.00	Fort Smith by H.S.Nakdimen	Poteau
Jan. 13,'51	$6,000.00	Poteau	Fort Smith
Jan. 17,'51	$6,000.00	Fort Smith	Poteau
Jan. 20,'51	$6,100.00	Heavener	Fort Smith
Jan. 22,'51	$6,100.00	Fort Smith	Heavener
Jan. 27,'51	$3,500.00	Poteau	Fort Smith
Jan. 30,'51	$3,500.00	Fort Smith	Poteau
Feb. 3,'51	$3,750.00	Poteau	Fort Smith
Feb. 8,'51	$3,750.00	Fort Smith	Poteau
Feb. 10,'51	$2,500.00	Poteau	Fort Smith
Feb. 14,'51	$2,500.00	Fort Smith	Poteau
Apr. 6,'51	$3,000.00	Poteau	Fort Smith
Apr. 9,'51	$3,000.00	Fort Smith	Poteau
Apr. 17,'51	$1,500.00	Heavener	Fort Smith
Apr. 18,'51	$1,500.00	Fort Smith	Heavener
Apr. 21,'51	$3,500.00	Poteau	Fort Smith
Apr. 24,'51	$3,500.00	Fort Smith	Poteau

"Date Check Deposited	Amount of Check	Drawn On	Deposited In
Apr. 28, '51	$4,000.00	Heavener	Fort Smith
May 4, '51	$4,000.00	Fort Smith	Heavener
May 5, '51	$4,000.00	Poteau	Fort Smith
May 10, '51	$4,000.00	Fort Smith	Poteau
May 11, '51	$5,000.00	Poteau	Fort Smith
May 15, '51	$5,000.00	Heavener	Poteau
May 18, '51	$5,000.00	Fort Smith	Heavener
May 21, '51	$5,000.00	Heavener	Fort Smith
May 23, '51	$5,000.00	Fort Smith	Heavener
May 24, '51	$5,000.00	Poteau	Fort Smith
May 26, '51	$5,000.00	Fort Smith	Poteau
June 8, '51	$2,393.95	Fort Smith	Merchants Natl. Bank
June 21, '51	$1,603.75	Fort Smith	Fort Smith
June 30, '51	$2,000.00	Poteau	Fort Smith
July 5, '51	$2,000.00	Fort Smith	Poteau
July 15, '51	$4,213.44	payable to Kellogg Switch Board & Supply Co., on Fort Smith	
July 25, '51	$1,521.04	Fort Smith	Fort Smith
July 30, '51	$8,000.00	Poteau	Fort Smith
Aug. 3, '51	$8,000.00	Fort Smith	Poteau

Date of Check	Amount of Check	Drawn On	Payable To
July 27, '51	$2,466.75	Fort Smith	Southwestern Bell Telephone Co.
Aug. 28, '51	$1,422.58	Fort Smith	Collector of Internal Revenue
Sept.21, '51	$1,538.11	Fort Smith	Oklahoma-Arkansas Telephone Co. (payroll account)
Sept.13, '51	$2,543.46	Fort Smith	Southwestern Bell Telephone Co.
Sept.13, '51	$2,577.04	Fort Smith	Southwestern Bell Telephone Co.
Dec. 1, '51	$4,475.99	Poteau	Oklahoma-Arkansas Telephone Co.
Nov. 7, '51	$8,000.00	Fort Smith	Farmers National Bank of Green Forest Arkansas.

"Also, bond coupons on Oklahoma-Arkansas Telephone Company in the amount of $300 credited to Cooper Estate account on October 15, 1951, and like coupons in the amount of $700 credited to four accounts on November 27, 1951 were handled in such a manner as to constitute unsafe and unsound practices in conducting the business of the bank.

19. The bank is trustee of a bond issue of the Oklahoma-Arkansas Telephone Company, an affiliate of the bank, and since the interests of the holders of the bond issue may become adverse to the interests of the company, the trustee should not be identified with the company.

20. The directors and officers of the City National Bank of Fort Smith have been warned repeatedly by the Comptroller of the Currency to discontinue such violations of law and such unsafe and unsound practices in conducting the business of such bank.

II

The Board of Governors of the Federal Reserve System, having considered the certificate of the Comptroller of the Currency, deems it necessary and appropriate to cause notice to be served upon you, the above-named directors and officers of the City National Bank of Fort Smith, pursuant to said Section 30, to show cause why you should not be removed from office.

III

Accordingly, notice is hereby given to you, the above-named directors and officers of the City National Bank of Fort Smith, that the 22nd day of December, 1952 at ten o'clock, a.m., is fixed as the time, and the Federal Reserve Bank of St. Louis, St. Louis, Missouri, as the place when and where a hearing will be held before a trial examiner to be appointed by the Board of Governors, for the purpose of taking evidence on the allegations contained in the certificate of the Comptroller of the Currency aforesaid, at which time and place you will have the right under said statute to appear and show cause why each of you should not be removed from office as a director or officer of the aforesaid bank.

IN WITNESS WHEREOF, the Board of Governors of the Federal Reserve System has caused this notice to be signed by its Secretary "and its official seal to be annexed at Washington, D. C., on this 17th day of November, 1952.

By the Board.

(Signed) S. R. Carpenter

SEAL

S. R. Carpenter,
Secretary."

In connection with the above action, it was also agreed unanimously that arrangements should be made with the Federal Trade Commission for the services of Mr. James A. Purcell to conduct the hearing, with the understanding that the Board would reimburse the Commission for Mr. Purcell's salary and any travel expenses involved for the period of time that his services were utilized in this connection.

At this point Messrs. Vest, Sloan, Chase, and Hackley withdrew from the meeting.

Reference was made to the action of the Board on October 23, 1952, establishing, beginning with 1954, a policy of rotation of Class C Federal Reserve Bank directors.

Question was raised at this time whether the action of the

Board should be interpreted as meaning that a person who had served more than three full years as a Class A, B, or C director and during that time had served one full term as Chairman and Federal Reserve Agent would not be permitted to serve a total of more than two full terms.

It was agreed unanimously that this interpretation was correct.

Chairman Martin referred to a letter which he had received from Mr. Lunding, Chairman of the Federal Reserve Bank of Chicago, suggesting the appointment of Mr. Leonard Spacek, a partner in the accounting firm of Arthur Andersen and Company, as a Class C director of the Chicago Bank for the unexpired portion of the term ending December 31, 1954.

After a discussion, it was agreed that Chairman Martin would advise Mr. Lunding that inasmuch as the Board had retained the firm of Arthur Andersen and Company to audit its accounts, it should not consider the appointment of Mr. Spacek.

Governor Robertson referred to the comments which he made at the meeting on November 4, 1952, with respect to the suggestion that the Federal Reserve Banks be audited by certified public accounting firms and stated that he subsequently discussed with Mr. Lang, Chief Federal Reserve Examiner, the possibility that a firm of auditors might be engaged to review the procedures of the Board's field examining staff in conducting Federal Reserve Bank examinations and to accompany the Board's staff on one examination each year to observe whether these procedures were being carried out properly and constituted a sufficient audit, with the thought that copies of the auditing firm's reports might be turned over to the Senate and House Banking and Currency Committees.

Governor Robertson recommended that, as a first step in that direction, Arthur Andersen and Company be engaged to accompany the Board's staff on the examination of a Reserve Bank scheduled for examination later this year to observe the examining procedures and the Bank's internal audit procedures and make a critical report.

Following a discussion, Chairman Martin was authorized to negotiate for the services of Arthur Andersen and Company for the purpose described by Governor Robertson, with the understanding that he would thereafter make a recommendation to the Board.

Chairman Martin also was authorized to negotiate with Arthur Andersen and Company to audit the Board's accounts for the last nine months of 1952 and the year 1953, with the understanding that he would thereafter make a recommendation to the Board.

At this point the following members of the staff entered the room:

Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Myrick, Assistant Director, Division of Bank Operations
Mr. Farrell, Chief, Reserve Bank Budget and Expense Section, Division of Bank Operations
Mr. Massey, Technical Assistant, Division of Bank Operations

Governor Mills stated that the Mortgage Bankers Association of America was planning to hold a conference of about 350 younger executives of mortgage banking institutions in Washington on January 15-16, 1953, and had inquired through the Director of the Division of Research and Statistics whether a program could be arranged on January 15 to explain the operations of the Federal Reserve System, especially as they affect the cost and availability of loanable funds. He said it was being planned to have Vice President Wayne and his colleagues from the Federal Reserve Bank of Richmond come to Washington the morning of January 15 to offer their visual presentation and that, if agreeable to the Board, Mr. Young or one of his associates would address the conference that afternoon. Governor Mills said that he would recommend authorizing Mr. Young to participate in the program on the basis outlined and also to make the necessary arrangements with Mr. Wayne for participation by the Richmond Bank.

Governor Mills' recommendation was approved unanimously.

At this point Mr. Thomas, Economic Adviser to the Board, and Mr. Vest, General Counsel, entered the room.

Consideration was given to the budgets submitted by the Federal Reserve Banks for the year 1953. In accordance with the procedure for handling the budgets which was approved by the Board on October 6, 1952, Governor Evans sent to the other members of the Board on October 27, 1952, a memorandum transmitting (1) a general summary of the budgets covering all functions, with separate summaries of the budgets for the research and statistical, bank and public relations, and provision of personnel functions, and (2) a reference volume comprising a detailed, factual analysis of the budgets.

At the request of the Board, Mr. Leonard made a statement concerning the procedure followed by the Division of Bank Operations in connection with the Reserve Bank budgets. He pointed out that this work constituted only a part of the work of the Board's staff relating to Reserve Bank expenses, other parts including the review of expenses by the field examining staff, the preparation and distribution to the Reserve Banks by the Division of Bank Operations of functional expense reports compiled from data submitted by the Banks in accordance with the accounting manual, and the making of field surveys by the Division of Bank Operations.

Regarding the budgets, Mr. Leonard pointed out that since 1951, following a report by Price, Waterhouse and Company, they have been submitted by objects of expenditures, with, in addition, a detailed breakdown of three functions, namely, the research and statistical, bank and public relations, and provision of personnel functions, in which the Board has indicated a particular interest since the level of expenditures therefor is determined to a major extent by policy considerations. He noted that statistics also are submitted by the Banks showing salaries of employees (but not officers' salaries) by functions, together with related data on manpower and volume of work statistics for the various functions.

Mr. Leonard said that the work on the budgets was made somewhat difficult because of the legal responsibilities vested in the Reserve Banks and the Board. The Reserve Bank directors are charged with the responsibility for performing duties normally performed by directors of banking institutions while the Board has the specific power to approve compensation, which it exercises through the approval of each officer's salary and approval of the employee salary structure of each Reserve Bank.

Thus, there is a borderline area in which it is difficult to determine where the responsibilities of the Board begin and those of the Reserve Banks end, and over the years there has been an attempt to work this out through cooperation. The budgets are approved by the directors of the respective Reserve Banks and it has been the practice of the Board to accept the budgets, subject to any reservations which the Board may choose to express.

In response to a question by Governor Vardaman, Mr. Leonard said that since 1947, when the Board instituted the practice of acting upon the budgets submitted by the Reserve Banks, it had in no instance "approved" them but instead had "accepted" them either finally or tentatively, subject to further review and final acceptance.

Following a discussion of this point, Mr. Farrell outlined the steps taken in reviewing and analyzing the budgets, including the referral of items back to the Reserve Banks for further explanation. He also mentioned that the budgets for the research and statistical function were reviewed and the analysis prepared by the Division of Research and Statistics, that the budgets for the provision of personnel function were reviewed and the analysis prepared by the Division of Personnel Administration, and that the budgets for the bank and public relations function were reviewed by Mr. Thurston's office.

Mr. Farrell then discussed the review of the budget data for significant trends, exhibiting in this connection charts relating to salary trends over the period 1941-1953 and expenses of handling country checks over the same period.

There was discussion of these trends, as well as of the functional expense data shown in the budget analysis volume, and Mr. Leonard pointed out several instances where there were substantial differences in unit costs for the same function as between Reserve Banks and explained the reasons for these differences. He also commented on certain cases where the budget data indicated that there would be a significant increase or decrease at a particular Bank in 1953 as compared with 1952. Mr. Leonard brought out that variations in functional expenses from one Reserve Bank to another did not constitute conclusive evidence of variances in efficiency because of certain uncontrollable factors but that they did indicate the desirability of investigation. In this connection, he described the nature of the field surveys made by the staff of the Division's Reserve Bank Budget and Expense Section.

Governor Robertson asked what disposition was made of the reports of the field surveys, and Mr. Leonard responded that reports of the major surveys were submitted to the Board but that the other reports were reviewed within the Division of Bank Operations since it was not felt that they would be of particular interest to the Board. Governor Robertson expressed the opinion that it might be desirable to submit all of the reports to the Board as a matter of keeping the members informed as to the efficiency of operations at the Reserve Banks.

Mr. Leonard said that condensations of the reports might be preferable for that purpose, and that the Board members, in reviewing such material, should bear in mind that the report on a particular operation was not necessarily indicative of the over-all efficiency of the Reserve Bank.

Mr. Leonard also offered the suggestion that the Board might wish to set aside meetings periodically to consider the operations of one or two of the Reserve Banks, bringing into the meeting representatives of all of the divisions of the Board that are concerned with various phases of the operations. In this way, he thought, the Board would bring to bear a wealth of information and background over the years which could be related to the current situation.

At the conclusion of a discussion of this suggestion, Chairman Martin requested the Secretary to provide for such discussions in preparing the list of matters to be considered at meetings of the Board.

Governor Vardaman then inquired whether the Division of Bank Operations was continuing the practice of arranging for representatives of the Reserve Banks to accompany its staff on the field surveys so as to afford an exchange of ideas among the Reserve Banks. Mr. Leonard replied the practice had been discontinued temporarily because of a change in the pattern of the surveys but that it appeared to have been worth-while and its resumption was contemplated.

In response to a question by Governor Szymczak, Mr. Leonard said that the procurement of two additional persons provided for in the 1953 budget should enable the Reserve Bank Budget and Expense Section to devote more time to the field surveys and that the 1953 schedule envisaged visits to each Reserve Bank and branch.

In reply to another question by Governor Szymczak, Mr. Farrell said that the Board's staff had received very good cooperation from the Reserve Banks in working toward the solution of any criticized matters. He explained that the general approach of the staff was that they desired to be helpful to the Banks, that the nature of the problems was often such that they could be worked out only over a period of time, and that this should be taken into account in reviewing any reports of the field surveys.

Chairman Martin then suggested that the consideration of the Reserve Bank budgets for 1953 be resumed at the meeting on November 19.

The Board then went into executive session, after which the Chairman advised the Secretary that the Board had discussed the retention of Mr. Robert B. Dawkins, Assistant General Counsel in Charge of Appeals at the Federal Trade Commission, for the purpose of assisting in such manner as the Board might wish in the conduct before the courts of the Clayton Act proceeding against Transamerica Corporation and to advise the Board with respect to the proceeding, including changes in the situation affecting the proceeding such as the death of Mr. L. M. Giannini and the disposition by Transamerica Corporation of its remaining holdings of the stock of Bank of America National Trust & Savings Association, and that by unanimous vote Governor Evans had been authorized to negotiate with Mr. Dawkins for his retention by the Board, with the understanding that when the arrangement with Mr. Dawkins was completed, Governor Evans would submit a recommendation to the Board for its approval.

The meeting then recessed and reconvened in the special library at 2:30 p.m. with the same attendance as just prior to the executive session except that Messrs. Myrick, Farrell, and Massey were not present, and Messrs. Riefler, Assistant to the Chairman, and Horbett, Assistant Director, Division of Bank Operations, were present.

Mr. Vest reported that he had received a telephone call from Mr. Charles H. Kendall, General Counsel of the Office of Defense Mobilization, who stated that the staff of that agency was considering what recommendations might be made to Congress for amendments to the Defense Production Act of 1950, that the views of interested Government agencies had been sought, but that through oversight a letter had not been sent to the Board requesting its views. He said that Mr. Kendall indicated that he would be glad to receive the Board's suggestions either informally or in a letter.

Following a discussion, Chairman Martin suggested that Mr. Vest say to Mr. Kendall informally that the Board would be glad to receive a letter requesting its views and would thereupon consider the matter and transmit its suggestions.

Chairman Martin's suggestion was approved unanimously.

Before this session there had been distributed to the members of the Board a memorandum of topics to be discussed at the joint meeting of the Board and the Federal Advisory Council to be held tomorrow at 10:30 a.m. The matters were discussed and it was understood that Chairman Martin would present the views at the joint meeting substantially as recorded in the minutes of that meeting.

In connection with the suggestion of the Council that a study be made at the end of 1952 to bring up to date the study of the impact of the excess profits tax on banks which covered the years 1950 and 1951, Mr. Horbett outlined a procedure which he had suggested in a memorandum to Governor Mills dated November 17, 1952. The plan contemplated the use of a supplement to the report of earnings and dividends for the calendar year 1952, with five items of information to be requested if it were decided to limit the data called for to the minimum, i.e., the amount of excess profits taxes on 1952 taxable income, two additional items to be requested if it were decided that the information should be expanded to show the amount of taxes applicable to net current income, and four more items which might be requested should it be decided to collect additional data that would permit satisfactory estimates to be made of the effect of borrowings on banks' 1952 tax situations.

Mr. Horbett suggested that if it should be decided to obtain supplementary statistical data covering the year 1952:

(a) the above-mentioned supplementary schedule, in whatever form decided upon, be sent only to those insured commercial banks, numbering about 1,300, that comprised the sample of banks that actually reported for the previous excess profits tax study;

(b) with the concurrence of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, the distribution, receipt, tabulation, and analysis of the supplements be handled by the Board through the Federal Reserve Banks;

(c) the Division of Bank Operations be authorized to discuss the form with representatives of banker groups and make such technical changes as might be agreed upon, with the understanding that any changes of substance would be brought to the Board's attention; and

(d) the supplements be distributed early in 1953 with a return date of about March 25, 1953, unless future circumstances should dictate otherwise.

At this point all of the members of the staff except Messrs. Carpenter, Sherman, and Kenyon withdrew and the following additional action was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on November 14, 1952, were approved unanimously.

S R Carpenter
Secretary