

Minutes for March 14, 1958

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, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u><i>W</i></u>	_____
Gov. Szymczak	x <u><i>MS</i></u>	_____
Gov. Vardaman	x <u><i>V</i></u>	_____
Gov. Mills	x <u><i>[scribble]</i></u>	_____
Gov. Robertson	x <u><i>R</i></u>	_____
Gov. Balderston	_____	x <u><i>CB</i></u>
Gov. Shepardson	_____	x <u><i>[scribble]</i></u>

Minutes of the Board of Governors of the Federal Reserve System  
on Friday, March 14, 1958. The Board met in the Board Room at 10:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Leonard, Director, Division of Bank Operations  
Mr. Hackley, General Counsel  
Mr. Masters, Director, Division of Examinations  
Mr. Benner, Assistant Director, Division of  
Examinations  
Mr. Allison, Special Consultant to the Board

Commercial bank emergency preparedness program (Item No. 1).

As a part of the emergency preparedness program for the commercial banking system, responsibility for the encouragement of which had been delegated by Defense Mobilization Order I-20 of February 15, 1956, to the Board of Governors in cooperation with the Treasury, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, the Advisory Committee on Commercial Bank Preparedness and its subcommittee, the Banking Committee on Emergency Operations, had prepared and were now distributing the first part of a manual designed to assist banks in taking appropriate preparedness steps and to guide them in maintaining and restoring operations in the event of military attack. In this connection, there had been distributed to the members of the Board a draft of letter to the Presidents of all Federal Reserve Banks transmitting a new questionnaire proposed to be incorporated as a regular page in all reports of examination of State member banks. The Comptroller

3/14/58

-2-

of the Currency and the Federal Deposit Insurance Corporation had adopted an identical questionnaire for inclusion in their examination reports and the cooperation of the State bank supervisors was being sought through the National Association of Supervisors of State Banks. The letter would caution examiners not to be critical of the status of preparedness measures at the start of the program but would state that after a reasonable time had elapsed it would be appropriate for the examiners to comment on a failure to take essential measures, especially in the case of large correspondent banks. It would also suggest that appropriate comments might be made at that time on the extent to which correspondent banks were assisting their customer banks when they sought advice and guidance on their own preparedness programs.

At the request of the Board, Mr. Masters and other members of the staff outlined how it was intended that the proposed questionnaire would be used, how the body of information obtained would be useful to the Office of Defense Mobilization, and how this procedure would fit in with the work of the Advisory Committee on Commercial Bank Preparedness and its subcommittee. It was brought out that the Chairman of the Advisory Committee had expressed the view that a questionnaire of this kind should be included in the open section of the report of examination.

At this point, question was raised by Governor Vardaman regarding the appropriateness of using the examination function as a vehicle for collecting information of this kind, and the remainder of the discussion

3/14/58

-3-

was devoted principally to consideration of this question. In making his comments, Governor Vardaman indicated that he was mindful of the importance of the commercial bank preparedness program and that his reservations related only to procedure.

In this connection, Mr. Masters called attention to the responsibility vested in the bank supervisory function with respect to the proper maintenance of bank records under ordinary conditions and suggested that it seemed logical to extend this responsibility to take into account the adequacy of such records in the event of military attack. It was brought out also that the main burden of promoting the commercial bank preparedness program was being assumed by the Advisory Committee on Commercial Bank Preparedness and its subcommittee, and that the gathering of information through the bank examination function represented only an incidental part of this work.

During the discussion Governor Mills expressed the view that care should be exercised to keep this sort of approach in proper perspective. Therefore, although he did not share Governor Vardaman's concern about the inclusion of a questionnaire in the examination report, he was concerned about the language in which one portion of the proposed letter to the Federal Reserve Banks was couched. It was his view that the most progress could be achieved through encouragement and persuasion, and he noted that the establishment of an adequate preparedness program would involve the expenditure of bank funds. In the



3/14/58

-4-

circumstances, he questioned the advisability of suggesting at this time what attitude should be taken by the examiner at a later date in the event of failure of a bank to take essential preparedness measures.

Governor Vardaman agreed, stating that this bridge could be crossed later. He said that he was in favor of getting information and that it was merely a matter of approach.

Chairman Martin, whose views were supported strongly by Governors Szymczak and Robertson, suggested that the Board might be considered derelict in its responsibility if it did not take every reasonable step to encourage and assure the development of the commercial bank preparedness program. After referring to the urgency and importance attached by top Government circles to the development of a preparedness program which would be adequate in all of its aspects, he expressed the judgment that the banking profession as a whole would be found cooperative in this program and that the mere collection of information through the examination function would not represent undue intrusion into the affairs of the banks. However, he felt that the point made by Governor Mills about the degree of care that should be exercised, at least in the early stages of the program, might be valid.

Accordingly, it was agreed to eliminate from the letter to the Federal Reserve Banks those parts suggesting that critical comments with respect to preparedness measures taken by a bank may be made by the examiners at a later date, with the understanding that this could be

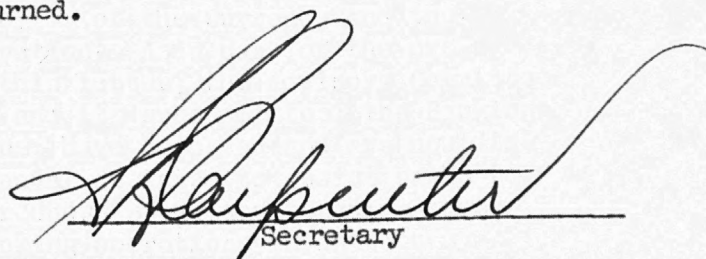
3/14/58

-5-

considered further by the Board when and if necessary. It was understood that the Comptroller of the Currency and the Federal Deposit Insurance Corporation would be advised accordingly, with a view to coordinating the approach of all of the Federal bank supervisory agencies.

Thereupon, the reservations as to procedure expressed by Governor Vardaman having been noted, approval was given to a letter to the Presidents of all Federal Reserve Banks in the form attached hereto as Item No. 1.

The meeting then adjourned.

  
Secretary

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

S-1651

Item No. 1  
3/14/58ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 19, 1958



Dear Sir:

This supplements and partly supersedes our letter dated October 29, 1956 (S-1606), referring to the order (DMO-I-20) issued February 15, 1956, by the Director of the Office of Defense Mobilization delegating the responsibility for the encouragement of preparedness measures by commercial banks to the Board of Governors of the Federal Reserve System in cooperation with the Treasury Department, the Comptroller of the Currency and the Federal Deposit Insurance Corporation. As a part of the preparedness program mentioned in this letter, the Advisory Committee on Commercial Bank Preparedness and its subcommittee, the Banking Committee on Emergency Operations, have prepared and are now distributing the first part of a manual designed to assist banks to plan and take appropriate preparedness steps and to guide them in maintaining and restoring banking operations in an economy seriously damaged by military attack.

The manual is being issued to all banks in the form of separate booklets covering major phases of the preparedness program, and the first booklet, "Organization and Administration of the Program in Your Bank", was distributed this week. A sufficient number of copies for the use of your senior examining personnel is being sent under separate cover. As additional booklets are received, a supply will be mailed to the vice president in charge of the bank examination department.

Previously, at the request of the Board, Federal Reserve examiners have used Form F.R. 410-56 for reporting the status of emergency preparedness measures in operation in banks located in cities in which there is at least one national or State banking office with deposits aggregating \$50 million or more. A similar report form has been used by examiners of the Comptroller of the Currency and the FDIC.

-2-

This form is now to be superseded by a new questionnaire to be incorporated as a regular page in all reports of examination of member State banks and to be numbered page 22. It is expected that examiners will obtain the answers to the questionnaire in consultation with the senior officers of banks under examination, and brief appropriate factual comments obtained from such officers will be set forth under "comments" on this page.

Examiners are cautioned not to be critical of the status of preparedness measures and to present no opinions on the adequacy of such measures, confining their comments in the open section of reports of examination to statements of fact related to the status and proposed development of preparedness measures, until further instructions are received.

The Comptroller of the Currency and the FDIC have adopted an identical questionnaire which will be included in their examination reports. State bank supervisors, through the National Association of Supervisors of State Banks, are being asked to cooperate in the examination program.

A sample copy of the questionnaire in typewritten form is attached for your information. After each examination, an extra copy of the completed questionnaire should be forwarded to the Division of Examinations. A sufficient supply of the new form for your present use will be forwarded to you as soon as printed. Additional supplies may be obtained by requisition. Please discontinue the use of the confidential page "Emergency Preparedness Measures" and begin using the new open section page 22 when you have received your supply of the new form.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS