

Minutes for July 9, 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>MM</u>	_____
Gov. Szymczak	X <u>MS</u>	_____
Gov. Vardaman	X <u>CV</u>	_____
Gov. Mills	X <u>MS</u>	_____
Gov. Robertson	X <u>R</u>	_____
Gov. Balderston	X <u>CCB</u>	_____
Gov. Shepardson	X <u>SS</u>	_____

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, July 9, 1958. The Board met in the Board Room in executive session at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
 Mr. Balderston, Vice Chairman
 Mr. Szymczak
 Mr. Vardaman
 Mr. Mills
 Mr. Robertson
 Mr. Shepardson

At the conclusion of the executive session, at 10:40 a.m., the following members of the staff were called into the Board Room. Mr. Hackley, General Counsel, had previously been called into the executive session.

Mr. Carpenter, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Solomon, Assistant General Counsel
 Mr. Benner, Assistant Director, Division of Examinations

Items distributed to the Board. The following items, which had been distributed to the members of the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to the Montgomery County Bank and Trust Company, Norristown, Pennsylvania, approving the establishment of a branch at Main, Mill, and Lafayette Streets. (For transmittal through the Federal Reserve Bank of Philadelphia)	1
Telegrams to the Federal Reserve Agent at Atlanta authorizing the issuance of limited voting permits to Citizens and Southern Holding Company and The Citizens and Southern National Bank, both of Savannah, Georgia, covering stock owned or controlled of The Augusta Citizens and Southern National Bank, Augusta, Georgia.	2,3

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Request from the Senate Subcommittee on Constitutional Rights (Item No. 4). There had been distributed to the members of the Board copies of a memorandum from Mr. Solomon dated July 2, 1958, submitting a draft of reply to a request from the Chairman of the Subcommittee on Constitutional Rights of the Senate Committee on the Judiciary for a report on information and records of the Board not available to members of the public or press.

Agreement having been expressed with a suggested change in the draft of reply, unanimous approval was given to a letter in the form attached as Item No. 4.

Mr. Benner then withdrew and Messrs. Hostrup and Goodman, Assistant Directors of the Division of Examinations, entered the room.

Request of International Banking Corporation (Item No. 5). In a memorandum dated July 7, 1958, copies of which had been sent to the members of the Board, the Division of Examinations discussed the request of International Banking Corporation, New York, New York, for consent to the purchase and holding of stock of a banking subsidiary to be organized under the laws of the Union of South Africa. It was the Division's recommendation that the request be approved, subject to certain stated conditions.

Following a discussion during which Governor Shepardson suggested a change in language to clarify one of the conditions, unanimous approval was given to the letter to International Banking Corporation of which a copy is attached as Item No. 5, for transmittal through the Federal Reserve Bank of New York.

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Examination procedures. In a memorandum dated July 2, 1958, Governor Robertson proposed, as an experiment, with a view to improving procedures for keeping abreast of the foreign operations of Edge Act and agreement corporations and of State member banks at the lowest cost commensurate with the importance of the work, that the Federal Reserve Bank of New York be requested to set up a small group of examiners:

- (1) To examine the head office of each Edge Act and Agreement corporation and to make a survey of the operations of its foreign branches and offices, (For the time being, surveys of the operations of foreign branches of Edge Act and Agreement corporations will be made in connection with the regular examinations of those corporations, but at a later date it may be decided to separate the surveys from the examinations if that is deemed advisable.) and
- (2) To examine the information available at the head office of each State member bank with respect to the activities in each of its foreign branches - apart from the regular examinations of the operating bank.

The memorandum, copies of which had been distributed to the members of the Board, stated that it was contemplated that, in order to eliminate defects, the plan would be discussed with the Comptroller of the Currency, the New York Reserve Bank, and the Superintendent of Banks of New York before being put into effect; and that if major changes were made they would be brought before the Board for approval before the program was adopted. The hope was expressed that the same sort of procedure would be adopted by the Comptroller of the Currency with respect to national banks, and by the Superintendent of Banks of New York with respect to New York State banks. However, it was recommended that (unless ineradicable defects were discovered) the procedure be adopted with respect to

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State member banks even in the absence of concurrence by those officials. The Board's Division of Examinations would exercise general supervision over the program, and Board representatives would accompany the Reserve Bank's examiners from time to time in connection with the surveys and examinations. A decision as to the frequency of the proposed surveys would be made by the Board after the first round of surveys and examinations was completed; and it was hoped that those surveys could be accomplished within a period of nine months. At that time, also, it was contemplated that the program would be reviewed in the light of views and recommendations of the Reserve Bank and the Division of Examinations. Finally, it was proposed that in scheduling on-the-spot examinations of foreign branches in a given sector of the world the Board endeavor to work out an arrangement with the Comptroller of the Currency whereby System examiners would be commissioned as national bank examiners and authorized to examine such foreign national bank branches as the Comptroller might designate. Vice versa, national bank examiners might be commissioned as Federal Reserve examiners and authorized to examine designated foreign branches of State member banks.

Following a discussion of the proposed program by Governor Robertson, Governor Mills said that he would be willing to concur in it on an experimental basis. However, the program tended to run counter to his concept of System organization. The examining function, he said, is a function of the Board which is merely delegated to the Reserve Banks, and foreign examinations have hitherto been performed as a direct function

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of the Board. Therefore, thought should be given to whether the Board wished to weaken a position that had been held over the years. Perhaps more important, however, was the fact that the plan contemplated reliance on internal audits and examination of head office records, with only occasional on-the-spot examinations, so that for the most part the examiner would have no opportunity to appraise the competence and reliability of individuals in authority at foreign branches. Further, it occurred to him that over the years there had been increasing complaints about bank examiners not giving value rendered for the cost involved, and in the case of the proposed surveys there would really be no examination at all. The examiner making such a survey would be one step removed, even granting that some of the records available at the head office might be more informative than the records at the branch. For these reasons, he felt that the Board should consider whether the type of examination proposed would conform to the kind of examination that the bank concerned might have reason to expect in order to provide an objective insight into its affairs.

Responding, Governor Robertson commented first that the element of cost to the examined bank would be involved in the case of national banks, but that Federal Reserve examinations are, of course, rendered without charge. Also, he felt that it was problematical whether a bank should rely on an examination by the supervisory authorities to be sure that its branches were operating properly. Examinations, he suggested, are made primarily for supervisory purposes rather than to aid the

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examined banks. Although agreeing that on-the-spot examinations once in a while would be desirable, he pointed out that examinations of foreign branches at least once a year would be necessary to achieve comparability with practices in regard to domestic branches. As he saw it, there would be no point in maintaining such a schedule because the supervision given to foreign branches by the parent bank is far greater than that given to domestic branches. There is a much more careful selection of personnel in charge of foreign branches, and the banks do a good job in sending out auditors, in maintaining audit control, and in making directors' examinations. Furthermore, they limit the authority of the foreign branch manager and strict controls are maintained by the main office. In the circumstances, he felt that it was worth experimenting with a program which would enable the authorities to keep more currently informed than at present.

As far as the delegation of authority to the New York Bank was concerned, Governor Robertson suggested that one must look at the System as a system, and under today's conditions he did not feel that there was real merit in refusing to delegate this work to the New York Bank, although strings would have to be kept on it. He referred to the competency of the Bank's staff and said that it would always be possible to supervise the correspondence between the Bank and the examined institutions.

There followed some discussion of statutory provisions related to the proposal during which Mr. Solomon expressed the opinion that there would be no legal barrier to the delegations of authority envisaged by the program.

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Governor Szymczak then made a statement in which he said that he would be willing to adopt the proposed program as an experiment but expressed some concern that the program, if in effect over a period of time, might have the result of tending to impair the quality of the advice available to the Board from its staff.

Governor Robertson agreed with the desirability of keeping the Board's staff in a position to render expert advice and explained how he felt that this objective could be achieved under the proposed program through utilizing to maximum advantage the staff resources available to the Board and making use of Reserve Bank manpower under appropriate lines of supervision.

In further discussion of the points raised by Governors Mills and Szymczak, Governor Balderston suggested that it might help to put the matter in perspective if the record were to show that this was not a complete delegation of authority to the New York Reserve Bank but rather a procedure supplemental to those now in effect.

There ensued additional discussion of the contemplated procedures under the proposed program, with special emphasis on the supervision that would be exercised by the Board, and also of the question of reimbursement in the event that national bank examiners were assigned to examine designated foreign branches of State member banks.

Chairman Martin then suggested that the program be tried on an experimental basis, in full awareness of the problems involved and the need to keep educating the Board's staff working in this area.

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There was agreement with this suggestion, with the understanding that the Division of Examinations would make a report to the Board in six months on the progress of the program and that any special problems which might arise before the end of the nine-month period, when full review of the program was contemplated, would be brought to the Board's attention. This action meant that, as indicated in Governor Robertson's memorandum, he would now proceed to discuss the proposed program with the New York Reserve Bank, the Comptroller of the Currency, and the Superintendent of Banks of New York.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on the dates indicated the following items affecting the Board's staff:

July 3

Salary increases for the following persons in the Division of Examinations, with a change in designation in each case from Assistant Federal Reserve Examiner to Federal Reserve Examiner, effective July 13, 1958:

<u>Name</u>	<u>Basic annual salary</u>	
	<u>From</u>	<u>To</u>
John P. Donovan	\$6,285	\$7,030
Michael W. Flynn	6,585	7,030
Jerry B. Riley	6,435	7,030

Salary increases for the following persons in the Division of Examinations, effective July 13, 1958:

W. D. Dougal, Senior Federal Reserve Examiner	10,370	11,355
Adrien P. Francoeur, Assistant Federal Reserve Examiner	6,135	7,030
Linwood N. Tyndall, Assistant Federal Reserve Examiner	4,940	5,130
Karl P. Wendt, Senior Federal Reserve Examiner	8,570	9,890

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July 9Salary increases, effective July 13, 1958:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u> ^{1/}	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Doreen M. Dippre, Secretary		\$5,065	\$5,200
<u>Legal</u>			
Eugene C. Harrison, Law Clerk		4,210	4,345
<u>Research and Statistics</u>			
Mary T. Gregory, Statistical Clerk		3,500	3,585
Carolyn Anne Rison, Editorial Clerk		3,670	3,755
Barbara E. Schriver, Statistical Clerk		3,415	3,500
<u>International Finance</u>			
Nancy S. Martino, Economist		5,575	5,710
Nyart S. Sharigan, Secretary		4,075	4,210
Thomas E. Summers, Economist		7,570	7,785
<u>Bank Operations</u>			
Mary Catherine Tippett, Clerk-Stenographer		3,415	3,500

Salary increases, effective July 13, 1958:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
Toni E. Painter, Stenographer		\$3,755	\$3,850
<u>Administrative Services</u>			
Robert H. Craft, Operator, Tabulating Equipment		4,230	4,325
Donald B. Fitzhugh, Tabulation Planner		5,985	6,135
Herbert E. Haney, Operator, Tabulating Equipment		4,980	5,130

^{1/} Subject to adjustment for general pay increase.

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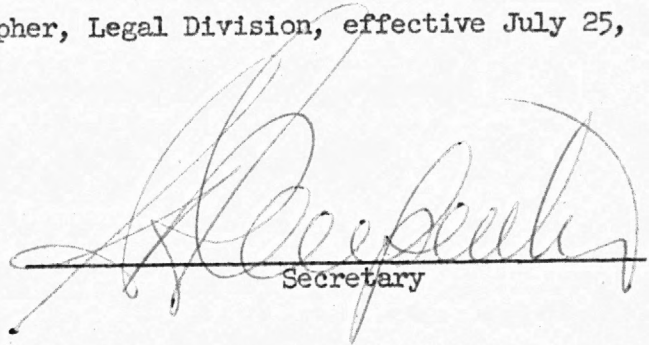
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Appointment

Blanche E. Peacock as Charwoman in the Division of Administrative Services, with basic annual salary at the rate of \$3,245, effective the date she assumes her duties.

Acceptance of resignation

Margaret O. Tucker, Stenographer, Legal Division, effective July 25, 1958.


Secretary

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

Item No. 1
7/9/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 9, 1958

Board of Directors,
Montgomery County Bank and Trust Company,
Norristown, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of a branch at Main, Mill, and Lafayette Streets, Norristown, Pennsylvania, by the Montgomery County Bank and Trust Company, provided the branch is established within one year from the date of this letter and the approval of the State Banking Department is in effect as of the date of the establishment of the branch.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
7/9/58

July 9, 1958

MITCHELL - ATLANTA

KECEA

- A. Citizens and Southern Holding Company, Savannah, Georgia.
- B. The Augusta Citizens and Southern National Bank, Augusta, Georgia.
- C. None.
- D. At any time prior to November 1, 1958, to act upon a proposal to increase the capital of such bank and take all action necessary in connection therewith, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) S. R. Carpenter

CARPENTER

KECEA

The Board authorizes the issuance of a limited voting permit under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
7/9/58

July 9, 1958

MITCHELL - ATLANTA

KECEA

- A. The Citizens and Southern National Bank, Savannah, Georgia.
- B. The Augusta Citizens and Southern National Bank, Augusta, Georgia.
- C. None.
- D. At any time prior to November 1, 1958, to act upon a proposal to increase the capital of such bank and take all action necessary in connection therewith, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) S. R. Carpenter

CARPENTER

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The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964)

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
7/9/58

OFFICE OF THE CHAIRMAN

July 9, 1958

The Honorable Thomas C. Hennings, Jr., Chairman,
Committee on the Judiciary,
Subcommittee on Constitutional Rights,
United States Senate,
Washington 25, D. C.

My dear Mr. Chairman:

This refers to your letter of June 26, 1958, regarding information and records of the Board of Governors of the Federal Reserve System not available to members of the public or press upon request, and also regarding the authority for such nondisclosure.

The Board recognizes that it is essential for the public to be as well informed as possible regarding the System's functions as the country's central banking institution. The information it disseminates, although to a large extent statistical and of particular interest to the financial press and community, is intended to serve that purpose.

It is the standing practice of the Board, in general, to provide by public statement or upon request of any interested person all factual, objective information in its possession, other than that falling into the exceptional categories described in the Board's Rules of Organization, the principal classes of which are as follows:

1. Information covered by specific legal prohibition against disclosure. Thus, public disclosure of findings of fact and orders issued in proceedings for the removal of directors or officers of member banks is expressly forbidden by section 30 of the Banking Act of 1933.
2. Information with respect to the determination of credit and monetary policies in the national monetary field, premature disclosure of which could very well play into the hands of speculators or special groups and disrupt markets. Federal Reserve actions relating to discount rates, reserve requirements, open market operations, margin requirements, and like matters have in particular a direct effect on financial markets.

The Honorable
Thomas C. Hennings, Jr.,

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3. Confidential information obtained by the Board
in the discharge of its supervisory functions.

Authority for nondisclosure of the categories of information referred to above and more fully described in the Board's Rules of Organization is based upon the provisions of section 3 of the Administrative Procedure Act (5 U.S.C. 1002) which permits nonpublication and nondisclosure of any information to the extent that it involves functions requiring nondisclosure in the public interest or matters which for good cause found are held confidential. In addition, as previously mentioned, section 30 of the Banking Act of 1933 (12 U.S.C. 77) relating to proceedings for the removal of directors or officers of member banks, expressly provides that the Board's order and findings of fact in any such case shall not be made public or disclosed to any one except the director or officer involved and the directors of the bank involved. The Board of Governors is authorized by statute to make rules and regulations necessary to enable it effectively to perform its duties and functions or services (12 U.S.C. 248 (i)). Employees of the United States are prohibited by statute (18 U.S.C. 1905) from disclosing financial or business information regarding particular persons or institutions. A copy of each of these provisions, as well as a copy of the Board's Rules of Organization, section 8 (12 CFR 261.3) of which bears upon the nondisclosure of certain information of the classes previously described, is enclosed. There is also enclosed a copy of the Board's rules relating to outside activities of its employees and restrictions on the disclosure of information.

While there has never been any occasion for a court decision relating to the nondisclosure of information by the Board itself, the courts have recognized the confidentiality of information contained in reports of examination of banking institutions. Bank of America v. Douglas, 105 Fed. 2d 100 (1939).

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures.

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

Item No. 5
7/9/58

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 9, 1958

Mr. G. S. Moore, Vice President,
International Banking Corporation,
55 Wall Street,
New York 15, New York.

Dear Sir:

In accordance with the request and on the basis of the information submitted in your letter of May 29, 1958, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent to the purchase and holding by International Banking Corporation of the stock of a banking corporation to be organized under the laws of the Union of South Africa and to be located in Johannesburg, Union of South Africa, such stock to be acquired at a cost not to exceed South African £200,000 (or approximately US\$560,000) within one year from the date of this letter.

It is understood that the name of the corporation will be "The First National City Bank of New York (South Africa)", subject to the approval of the South African authorities, and that all of the stock will be owned by International Banking Corporation except as the laws of the Union of South Africa may require directors to have qualifying shares.

The Board's consent to the proposed purchase and holding of stock is granted subject to the following conditions:

- (1) That International Banking Corporation shall not hold any stock in the South African bank if the South African bank at any time fails to restrict its activities to those permissible to a corporation in which International Banking Corporation, with the consent of the Board of Governors, may purchase and hold stock under its agreement entered into under Section 25 of the Federal Reserve Act or under Regulation K, or if the South African bank, except with the consent of the Board of Governors, establishes any branch or agency or takes any action or

Mr. G. S. Moore

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undertakes any operation in the Union of South Africa or elsewhere which at that time is not permissible to International Banking Corporation without such consent;

- (2) That when required by the Board of Governors, International Banking Corporation will cause the South African bank to permit examiners appointed by the Board of Governors to examine the South African bank and to furnish the Board of Governors with such reports as it may require from time to time;
- (3) That International Banking Corporation will be expected to dispose of the stock of the South African bank as promptly as practicable in the event that operations of the South African bank should at any time be inconsistent with the provisions of the agreement of International Banking Corporation under Section 25 of the Federal Reserve Act or of Regulation K or of the terms of this letter.

Upon the completion of the organization of the proposed South African bank, it is requested that the Board of Governors be furnished with copies of the articles of association and by-laws of the institution. Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the bank is established and opened for business, furnishing information as to the exact location of the bank.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Secretary.