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, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, April 20, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Connell, Controller
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Wood, Senior Economist, Division of Research and Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on April 18, 1960, and by the Federal Reserve Bank of Minneapolis on April 19, 1960, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Items circulated to the Board. The following items, which had been circulated to the Board and copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Letter to The Chase Manhattan Bank, New York City, approving the establishment of a branch at 110 West 52nd Street.

Letter to the Industrial State Bank of Kalamazoo, Kalamazoo, Michigan, approving the establishment of a branch on West Main Street at Piccadilly Avenue.

Letter to the Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the vicinity of Strawberry Lane and Southside Drive.

Report requested by Housing Subcommittee. There had been distributed to the members of the Board copies of a letter dated April 18, 1960, from Senator Sparkman, Chairman of the Subcommittee on Housing of the Senate Banking and Currency Committee, which enclosed a copy of the Subcommittee's report on its study of mortgage credit that began in the fall of 1958 and referred particularly to Recommendation No. 5, which was to the effect that the Board of Governors be requested to submit a report not later than January 1, 1961, on certain matters relating to residential construction activity.

Chairman Martin suggested that a reply be sent to Chairman Sparkman indicating that the Board would endeavor to submit the requested report within the specified time, and agreement was expressed with this suggestion.

Mr. Wood then withdrew from the meeting.

Examination techniques and procedures. In a memorandum dated March 28, 1960, copies of which had been distributed to the Board, the
Division of Examinations discussed the report of Price Waterhouse & Co.
dated December 18, 1959, covering that firm's 1959 study of techniques
and procedures used by the Board's examining staff in conducting
examinations of Federal Reserve Banks. The memorandum indicated that
the examining procedures had been or would be amended to adopt, at
least in substance, the majority of the recommendations and suggestions
made by Price Waterhouse. In certain instances, however, it was felt
that final action on the proposals should be deferred pending the out-
come of trial experience with the suggested procedures, and in a few
instances it was believed that the advantages to be gained would not
be sufficient to warrant a change in the present examination procedures.

One of the recommendations of Price Waterhouse was to the effect
that the present review of the auditing departments of the Reserve Banks
be augmented by "on-the-spot" surveys of those departments during the
actual performance of an audit. In a memorandum dated April 11, 1960,
which also had been distributed to the Board, the Division of Examina-
tions recommended that it be authorized to proceed with an experimental
program of on-the-spot surveys of auditing departments and that Price
Waterhouse & Co. be engaged to furnish guidance to the Board's examiners
during the experimental period. In the thought that three or four
surveys might be regarded as constituting a reasonable trial program,
it was estimated that the proposal would require authorization to spend
as much as $7,500 for accountants' fees, travel, and subsistence expenses,
and no provision had been made in the approved Division budget for 1960. In a letter dated March 8, 1960, a copy of which was attached to the memorandum, Price Waterhouse indicated a willingness to establish $1,500 as the maximum fee for its participation in an individual survey of the kind in question.

At the request of the Board, Mr. Solomon reviewed the Price Waterhouse report of December 18, 1959, and the conclusions reached by the Division of Examinations, as set forth in the memorandum distributed under date of March 28, 1960.

No disagreement with the position taken by the Division of Examinations was indicated by the members of the Board.

Mr. Solomon then turned to the Price Waterhouse suggestion for making on-the-spot surveys of audits conducted by the auditing departments of the respective Reserve Banks and, after outlining the reasons given in favor of such an approach, indicated that the Division of Examinations, as stated in its memorandum of April 11, 1960, believed that such a procedure merited experimentation on a trial basis. He also pointed out that such surveys might provide an opportunity for advancing the training program of the Board's examining staff. He emphasized that the proposal to have representatives of a public accounting firm, presumably but not necessarily Price Waterhouse, accompany members of the examining staff on the initial surveys emanated from the Division of Examinations rather than Price Waterhouse.
Following a general discussion of the trial procedure suggested by the Division of Examinations, the Board authorized expenditure of an amount not to exceed $7,500 for the purpose of retaining representatives of an accounting firm to accompany representatives of the Board's Division of Examinations in making on-the-spot surveys of audits conducted by auditing departments of the Reserve Banks, it being understood that the program would be reconsidered by the Division in the light of the results of the first two experimental surveys.

During the course of the discussion that preceded the Board's action, consideration was given to whether the aforementioned audit surveys should be used in substitution, this year, for the general review of examination procedures and techniques that had been made annually by public accounting firms for the past several years, but a decision on that point was deferred. Consideration also was given to a number of questions relating to procedures that would be most appropriate in conducting the on-the-spot audit surveys, particularly whether the surveys should be conducted with the advance knowledge of the management of the auditing departments concerned or whether they should be conducted on a surprise basis. On this question, and on certain related questions of procedure, the Division of Examinations was authorized to reach a decision in the light of various factors that required further study. The suggestion was made, in this connection, that representatives of the accounting firm and the Division of Examinations be joined in the
surveys by a representative of the Division of Bank Operations, but
the consensus was that such a procedure need not be followed, at
least in the case of the initial surveys.

In his comments relating to the audit surveys, Governor Mills
indicated that he would not be averse to going forward with such a
program on a trial basis. However, he felt that efforts should be
made to guard against duplication of work by the auditing departments
and the Board's examining staff. It appeared to him that a regular
program of this kind could prove to be superfluous unless the results
were determined to give concrete assistance to the Board's examining
staff in its general examination practices. In this light, he felt
rather strongly that the contemplated procedure would fall short of
the desired results if it failed to take into account the earlier sug-
gestions and recommendations of Price Waterhouse dealing with decentrali-
zation of the Board's examining practices and the use of spot checks
to eliminate procedures that might be growing into a duplication of effort.

During the foregoing discussion Messrs. Thomas, Young, and Noyes
withdrew from the meeting.

First Bank Stock case. Mr. Hackley indicated that drafts of
an Order, a supporting statement, a concurring statement by Governor
Balderston, and a dissenting statement by Governor Mills with respect to
the application of First Bank Stock Corporation to acquire shares of
Eastern Heights State Bank, St. Paul, Minnesota, would be distributed to the members of the Board later in the day.

In order that all of the members of the Board might participate in the consideration of those documents, it was agreed that the meeting of the Board tomorrow would be held at 9:00 a.m.

The members of the staff then withdrew and the Board went into executive session.

Assignment to be undertaken by Mr. Taylor. The Secretary later was informed by Governor Shepardson that during the executive session the Board gave consideration to a recommendation of the Division of Research and Statistics that Stephen P. Taylor, Economist in that Division, be made available, in response to a request of the International Bank for Reconstruction and Development, to participate in an operational mission to be conducted by the International Bank for the Government of Malaya. For this purpose, Mr. Taylor would take annual leave for six weeks beginning April 24, 1960, and then take leave without pay for the remainder of the total period of approximately 10 to 12 weeks estimated to be necessary for the completion of the project, including a period of about six weeks to be spent in Malaya. The International Bank would pay Mr. Taylor directly for the entire period at an annual salary rate somewhat higher than his salary rate as a member of the Board's staff, and would also pay his expenses, while the Board would continue its retirement and group hospitalization contributions throughout the period.
Governor Shepardson informed the Secretary that he had been authorized to approve on behalf of the Board the memorandum from the Division of Research and Statistics covering this matter, and that he had done so following the meeting.

The meeting then adjourned.

Secretary's Notes: On April 19, 1960, Governor Shepardson approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending the following actions affecting the Board's staff:

- **Additional advance of sick leave**
  
  Norma L. Neitzey, Secretary, Division of Examinations, for the period from April 18, 1960, through May 15, 1960, or to the date of her return to duty, whichever is earlier.

- **Acceptance of resignation**
  
  Elsie M. Hart, Substitute Maid, Division of Personnel Administration, effective April 18, 1960.

Letter to the Federal Reserve Bank of Boston (attached Item No. 4), approving the designation of Eugene W. Kenney as special assistant examiner.

Governor Shepardson today approved on behalf of the Board a memorandum from Mr. Solomon, Director, Division of Examinations, dated April 15, 1960, requesting permission to deliver a lecture on bank capital at the School of Banking at the University of Wisconsin, Madison, Wisconsin, during the August 1960 session, it being understood that the
lecture would be delivered while Mr. Solomon was on annual leave and that it would not be inappropriate for him to accept compensation for the lecture.
Board of Directors,  
The Chase Manhattan Bank,  
New York, New York.  

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of an in-town branch at 110 West 52nd Street by The Chase Manhattan Bank, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
Board of Directors,
Industrial State Bank of
Kalamazoo,
Kalamazoo, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in Westwood Shopping Plaza, located on West Main Street at Piccadilly Avenue, Kalamazoo, Michigan, by Industrial State Bank of Kalamazoo, Michigan, provided the branch is established within ten months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,  
Citizens Fidelity Bank and Trust Company,  
Louisville, Kentucky.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch in the vicinity of Strawberry Lane and Southside Drive, Louisville, Kentucky, provided the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.
Mr. B. F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

In accordance with the request contained in your letter of April 14, 1960, the Board approves the designation of Eugene W. Kenney as a special assistant examiner for the Federal Reserve Bank of Boston for the purpose of participating in examinations of Rhode Island Hospital Trust Company, Providence, Rhode Island; Depositors Trust Company, Augusta, Maine; The Merrill Trust Company, Bangor, Maine; and The Connecticut Bank and Trust Company, Hartford, Connecticut.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.