

Minutes for March 15, 1961

To: Members of the Board

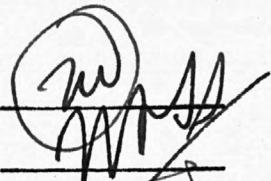
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

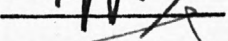
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

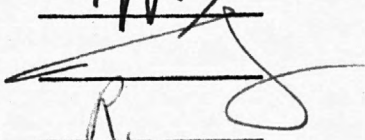
Chm. Martin



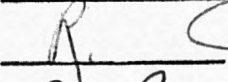
Gov. Szymczak



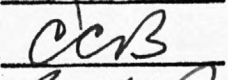
Gov. Mills



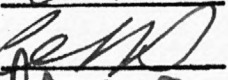
Gov. Robertson



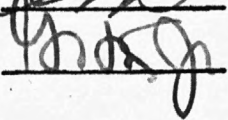
Gov. Balderston



Gov. Shepardson



Gov. King



Minutes of the Board of Governors of the Federal Reserve System on
 Wednesday, March 15, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of
 Bank Operations
 Mr. Furth, Adviser, Division of
 International Finance
 Mr. Conkling, Assistant Director, Division
 of Bank Operations
 Mr. Goodman, Assistant Director, Division
 of Examinations
 Mr. Leavitt, Assistant Director, Division
 of Examinations

Items circulated or distributed to the Board. The following
 items, which had been circulated or 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 all Federal Reserve Banks regarding forms to be used by State member banks and their affiliates in submitting reports as of the next call date.	1
Letter to The Chase Manhattan Bank, New York City, granting permission (1) to increase its investment in Chase Manhattan Overseas Corporation, and (2) for Chase Manhattan Overseas Corporation to increase its investment in The Chase Manhattan Bank (South Africa) Ltd., Johannesburg, Union of South Africa.	2

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Item No.

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Letter to The Peoples Bank of Hamburg, Hamburg, New York, consenting to its merger with The Bank of North Collins, North Collins, New York, and approving the operation of a branch incident to the merger.

Messrs. Furth, Conkling, and Goodman withdrew at this point, and Messrs. Solomon, Director, and Benner, Assistant Director, Division of Examinations, entered the room.

Defalcation losses in banks (Item No. 4). There had been distributed copies of a memorandum from the Division of Examinations dated March 8, 1961, which pointed out that recently a number of substantial losses in banks had resulted from defalcations by bank officers and that this suggested the need for remedial action to prevent such losses or minimize their effects. The safeguards mentioned were (1) purchase of excess employee dishonesty bonds, and (2) adequate audits and internal controls. The fidelity bond here referred to was first issued in 1958, and its availability had been brought to the attention of examiners of all three of the Federal bank supervisory agencies. However, the efforts of the supervisory agencies, the American Bankers Association, and the insurance underwriters to persuade banks to avail themselves of this coverage had been relatively unsuccessful. This was true particularly in the case of smaller banks.

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Submitted with the memorandum was a draft of letter to the Federal Reserve Banks requesting that examiners be instructed to discuss the availability of the excess employee fidelity bond with State member banks not carrying such insurance and to report the reaction of bank management in the open section of the report of examination. The proposed letter also would suggest that each Reserve Bank comment on the desirability of acquiring the added protection in their letters transmitting examination reports to State member banks. It was noted in the memorandum that the Comptroller of the Currency had recently instructed national bank examiners to take somewhat similar steps, although the reaction of management was to be reported in the confidential section only and no reference to the subject in letters of transmittal was contemplated.

Also submitted with the memorandum was a draft of joint statement that might be issued by the three Federal bank supervisory agencies, and perhaps the National Association of Supervisors of State Banks, urging that directors of banks protect the interest of depositors and stockholders through maintenance of adequate fidelity insurance, including excess employee dishonesty blanket bonds, and through use of adequate audit procedures and internal controls. It was suggested that the draft be used as a basis for discussion with the other Federal supervisory agencies and with the National Association of Supervisors of State Banks.

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After discussion, the proposed letter to the Federal Reserve Banks was approved unanimously and the staff was authorized to enter into discussion with the other Federal bank supervisory agencies and the National Association of Supervisors of State Banks regarding issuance of the proposed joint statement. A copy of the letter is attached as Item No. 4.

Mr. Molony, Assistant to the Board, entered the room at this point.

North Shore Bank, Miami Beach (Item No. 5). A memorandum from Mr. Solomon dated March 14, 1961, which had been distributed to the Board, referred to the actions taken by the Board to make available to the United States Attorney in Miami certain reports of examination of the North Shore Bank, Miami Beach, Florida. The Federal Reserve Bank of Atlanta had now forwarded to the Board a letter from Examiner Thomas E. Lindsey of the Federal Deposit Insurance Corporation, in whose custody the reports had been placed, raising the question whether photostats of certain pages of the reports could be made available to the United States Attorney. The letter indicated that the photostats would not be presented in court or in any way used in evidence. Mr. Solomon's memorandum reported that a check had been made with a representative of the Department of Justice, who agreed with the thought that the United States Attorney should submit his request through the Justice Department if he wished to pursue the matter further. Submitted with the memorandum was a draft of telegram to the Atlanta Reserve Bank to such effect.

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Following discussion, unanimous approval was given to a telegram to the Reserve Bank requesting it to advise Mr. Lindsey that he should not agree to the making of the photostats and that if the United States Attorney wished to renew the request he should do so through the Department of Justice, which would decide whether and how to submit the request to the Board. A copy of the telegram is attached as Item No. 5.

Questions connected with pending bank merger litigation. Mr. Hackley described questions that had been presented to the Federal bank supervisory agencies concerning the requested use of certain unpublished information in connection with recent actions brought by the Department of Justice in bank merger cases. There ensued a rather extensive discussion of various aspects of the problems raised by the requests, following which it was understood that the staff would present a memorandum for the Board's consideration concerning these matters and that the Board would then decide what, if any, further steps appeared appropriate.

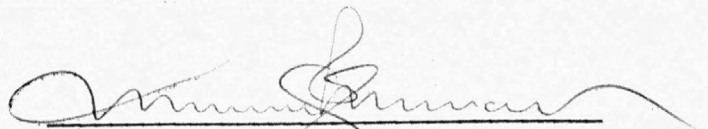
The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective March 19, 1961:

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<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Katherine Ellis Olson, Records Clerk		\$ 4,355	\$ 4,460
<u>Research and Statistics</u>			
Ruth H. Clarke, Editorial Clerk		4,355	4,460
Maynard S. Comiez, Economist		7,560	7,820
Edward A. Manookian, Economist		9,215	9,475
J. Cortland G. Peret, Economist		9,215	9,475
Anne T. Roberson, Secretary		5,490	5,655
<u>International Finance</u>			
Warrick E. Elrod, Jr., Economist		11,155	11,415
Rodney H. Mills, Jr., Economist		7,560	7,820
<u>Bank Operations</u>			
Doris J. Hodge, Secretary		4,840	5,005
John B. P. Baird, Analyst		6,015	6,180
<u>Examinations</u>			
Joseph B. Dunn, Assistant Federal Reserve Examiner		6,930	7,095
<u>Administrative Services</u>			
Louise L. Hiller, Data Control Clerk		4,840	5,005
Charlie H. Ward, Laborer		3,710	3,815



 Secretary

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

Z-5234 (On office
Item No. 1 copies only)
3/15/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1961.



Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form F.R. 105 (Call No. 159), Report of condition of State member banks.

Form F.R. 105a (Revised February 1961), Instructions for the Preparation of Reports of Condition of State Member Banks.*

Form F.R. 105e (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form F.R. 105e-1 (Revised February 1961), Publisher's copy of report of condition of State member banks

Form F.R. 105e-2 (Revised November 1955), Publisher's copy supplement.

Form F.R. 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form F.R. 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

* Will be forwarded on receipt from printer.

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All of these forms except F.R. 105e-2, F.R. 220, and F.R. 220a have been revised since the December 31, 1960 call date.

The principal changes in the published portion of the report are:

- (1) a new inset to asset item 4 to show holdings of securities of Federal agencies and corporations not guaranteed by the U. S. Government;
- (2) new items for total demand and total time deposits;
- (3) a provision that memoranda items 32(a) and 32(b) pertaining to reserves against loans and securities must be reported; however, publication of these items remains optional;
- (4) consolidation of the separate memorandum items for first and second preferred stock into a single item;
- (5) items previously numbered 20 and 21 have been reversed and the "borrowings" item rephrased to eliminate "bills payable";
- (6) the directors attestation has been amended to include a declaration that the entire report has been examined and is true and correct to the best of their knowledge and belief.

Form F.R. 105: Additional changes affect only the supporting schedules on

- (1) a new item in Schedule E for reporting demand deposits of foreign governments and official institutions, central banks and international institutions;
- (2) a breakdown of time deposits of individuals, partnerships, and corporations in Schedule F into: (a) savings deposits, (b) deposits accumulated for payment of personal loans (previously an inset to the deposits of individuals, partnerships, and corporations item), (c) deposits of foreign governments and official institutions, central banks and international institutions, and (d) other time deposits of individuals, partnerships, and corporations;
- (3) new inset items in the deposit schedules for reporting the amount of demand deposits and of time deposits of mutual savings banks included with deposits of banks in the U.S.;
- (4) a revision of the United States Government obligations schedule to provide for the reporting of Treasury notes maturing within one year and of U. S. bonds maturing within one year, and a combination of the 10-20 years and over 20 years maturity groups into a single item;

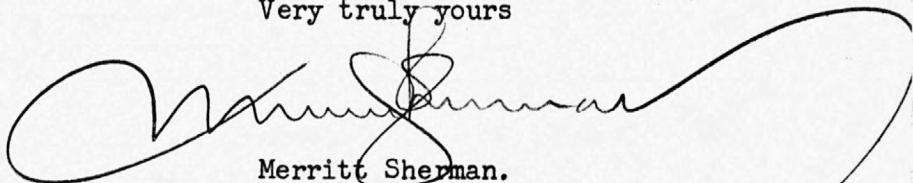
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- (5) the schedules of other assets and other liabilities (previously Schedules H and I), were moved to the bottom of the face of the report. A new item was added to the other liabilities schedule for reporting amounts due FRBanks under drafts or other authorizations to charge reserve accounts;
- (6) the schedule of contingent liabilities was eliminated.

Certain changes were also made in the form to make it adaptable as a report of deposits for insurance assessment purposes as provided in the Federal Deposit Insurance Act as amended in July 1960. These changes include new subitems for reporting the amount of "unposted debits" drawn on the reporting bank, included with other cash items in process of collection, in Schedule D, and a new Schedule FDI for reporting other data for deposit insurance assessment purposes. Instructions for reporting these new items are included in the revised instructions booklet.

The related instruction booklet, Form F.R. 105a, has been revised to include instructions for reporting the new items; some minor changes of a clarifying nature are also included.

Very truly yours



Merritt Sherman.
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 2
3/15/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1961



The Chase Manhattan Bank,
Eighteen Pine Street,
New York 15, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of December 27, 1960, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants permission to The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to increase from \$2,000,000 to \$2,350,000 the amount it may invest in the Chase Manhattan Overseas Corporation, ("CMOC"), New York, New York.

The Board of Governors also grants permission for CMOC to increase its investment in The Chase Manhattan Bank (South Africa) Ltd., Johannesburg, Union of South Africa ("South African Bank") to an amount not to exceed US\$1,750,000; provided, that CMOC shall not carry on its books the shares of the South African Bank at a net amount in excess of the book capital accounts of the South African Bank as of December 31, 1960, after giving effect to the elimination of all known losses.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 3
3/15/61

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1961



Board of Directors,
The Peoples Bank of Hamburg,
43 Main Street,
Hamburg, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to merger of The Bank of North Collins, North Collins, New York, into The Peoples Bank of Hamburg, under the charter of the latter bank and with a change of title to The Peoples Bank of Erie County, as such merger is believed to be in the public interest.

The Board of Governors also approves the operation of a branch of The Peoples Bank of Erie County at Main Street, North Collins, New York.

This approval is given provided the transaction is consummated within six months from the date of this letter substantially in accordance with the Agreement of Merger submitted with the application, and shares of stock acquired from dissenting shareholders are disposed of within three months of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

S-1785,

Item No. 4
3/15/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1961.

Dear Sir:

Excess employee dishonesty blanket bonds in multiples of \$1 million were made available to banks in 1958 by the Surety Association of America, and information about this coverage was forwarded to the Vice President in charge of examinations at your Bank in a letter of July 8, 1958, from the Board's Division of Examinations.

Recent bank defalcations include a number where insurance has been inadequate, and in some cases severe losses or even bank failures could have been averted if the \$1 million dishonesty bond had been held.

The Board believes that boards of directors of banks should be impressed with the necessity of carrying a dequate fidelity insurance, and those banks which are not protected by the \$1 million dishonesty bond, or its equivalent, should give consideration to its acquisition. There is enclosed a reprint of the "Protective Bulletin" of the American Bankers Association of June 1960 discussing "Directors responsibility for defalcation losses."

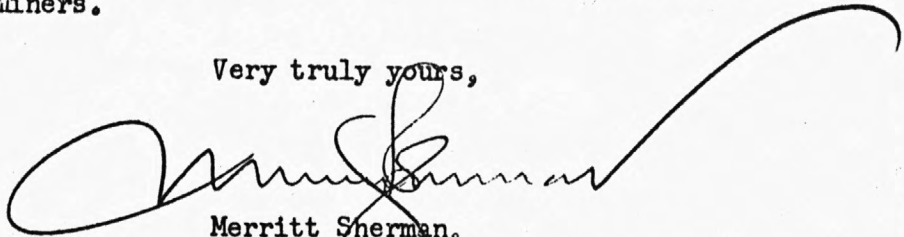
The Board requests that, in the course of each examination of a State member bank, Federal Reserve Bank examiners discuss with bank officers and with directors when available the protective benefits and relatively low costs of the excess employee dishonesty bond where such insurance, or its equivalent, is not held. Such discussions should of course be conducted prudently and tactfully, and comments should be made on page 2 of the report of examination respecting the views of the bank's management toward the examiner's suggestions. In banks where the primary bankers blanket bonds are so large in total amount that an increase in the amount of fidelity insurance would not add appreciably to the practical protection afforded the bank, examiners may dispense with discussion with the management. Letters transmitting examination reports should emphasize the desirability of acquiring the additional insurance protection provided by the excess employee dishonesty blanket bonds in support of comments on page 2.



Existing efforts to assure that State member banks have adequate audits and internal controls should also be intensified.

A supply of the "Protective Bulletin" will be sent under separate cover for the use of examiners.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TELEGRAM
LEASED WIRE SERVICEItem No. 5
3/15/61BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 15, 1961.

DENMARK - ATLANTA

Re your letter March 9, 1961, to Mr. Solomon enclosing copy of letter you received from Mr. Thomas E. Lindsey, FDIC Examiner, under date of March 8, 1961, concerning examination reports of North Shore Bank, Miami Beach, Florida.

Please advise Mr. Lindsey that he should not agree to the making of the photostats requested by the U. S. Attorney, and that in the event the U. S. Attorney wishes to renew the request, he should do so through the Department of Justice which would decide whether and how to submit the request to the Board.

(Signed) Kenneth A. Kenyon

Kenyon.