

Minutes for March 22, 1961

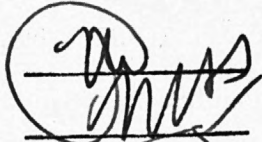

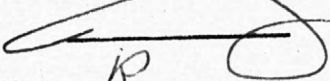
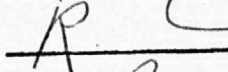
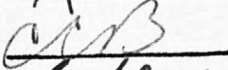
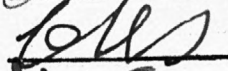
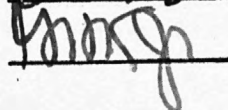
To: Members of the Board

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	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System  
 on Wednesday, March 22, 1961. The Board met in the Board Room at  
 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
 Mr. Balderston, Vice Chairman  
 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. Shay, Legislative Counsel  
 Mr. Molony, Assistant to the Board  
 Mr. Fauver, Assistant to the Board  
 Mr. Hackley, General Counsel  
 Mr. Noyes, Director, Division of Research  
 and Statistics  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Hexter, Assistant General Counsel  
 Mr. Leavitt, Assistant Director, Division of  
 Examinations  
 Mr. Young, Assistant Counsel  
 Mr. Wood, Senior Economist, Division of  
 Research and Statistics

Items circulated to the Board. The following items, which had  
 been circulated 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 First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at 401 West Chester Pike, Llanerch, Haverford Township.	1
Letter to The York Bank and Trust Company, York, Pennsylvania, approving the establishment of a branch at 1986 Carlisle Road, Shiloh, West Manchester Township.	2

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Disclosure of information relating to bank mergers (Items 3 and 4). There had been distributed to the Board copies of a memorandum from Mr. Hackley dated March 21, 1961, with further reference to requests for the disclosure of certain information having a relationship to antitrust suits brought by the Department of Justice in connection with proposed bank mergers in Philadelphia, Pennsylvania, and Lexington, Kentucky.

Mr. Hackley's memorandum advised that pursuant to the understanding at the Board meeting on Friday, March 17, he had informed the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation that in the absence of objection on the part of those agencies the Board was prepared (1) to make available to counsel for the banks involved in the Philadelphia merger a copy of the Board's report on competitive factors to the Comptroller of the Currency, and (2) to authorize the Department of Justice to offer in evidence, and to make available to defense counsel, copies of the Board's reports on competitive factors in the Philadelphia and Lexington cases. Mr. Hackley subsequently was advised that neither the Comptroller's Office nor the Federal Deposit Insurance Corporation would object to the actions proposed to be taken by the Board, although it was the Comptroller's thinking that reports made by the banking agencies to each other on competitive factors should not generally be made public. Submitted with the memorandum were drafts of letters proposed to be sent to counsel

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for The Philadelphia National Bank and to the Department of Justice.

In discussion of the matter, certain suggestions were made with respect to the wording of the proposed letters. Textual changes reflecting these suggestions having been agreed upon, the letters were then approved for transmittal, Governor Robertson dissenting. Copies of the letters, as sent, are attached as Items 3 and 4.

Governor Robertson dissented because, as he had stated at the meeting on March 17, he did not believe that the Board should make the report on competitive factors available to counsel for the Philadelphia banks concerned or that it should voluntarily permit such reports to be offered in evidence by the Department of Justice. In his opinion, the only result would be to place one agency of the Government against another. He felt that the wiser course would be to reply to the Justice Department in terms that the Board was not willing to permit the use of the reports in the manner contemplated except upon order from the court. However, he agreed that the letters to the Justice Department and to counsel for The Philadelphia National Bank were in accord with the majority view expressed at the March 17 meeting of the Board.

In the memorandum that had been distributed, Mr. Hackley also stated that he had advised representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation that the Board would not be in favor of releasing to outside parties intra-agency staff

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memoranda relating to bank mergers. He was informed that the Comptroller's Office was preparing a statement of the reasons for which the Comptroller approved the Philadelphia merger in the form in which such statement eventually would be published in the Comptroller's annual report to Congress, and that this statement would be made available upon request in the Philadelphia case.

Mr. Hackley further reported in his memorandum that pursuant to the understanding at the March 17 meeting copies of the latest reports of condition of the State member banks in Lexington, Kentucky, had been sent to the Department of Justice. However, a representative of the Department informed Mr. Hackley yesterday that the Department was sending to the Board a letter, as yet not received, which would request earnings and dividend reports, trust examiners' reports, and examination reports of the banks concerned.

As to the earnings and dividend reports, the memorandum indicated that it had been ascertained from the staff of the Comptroller's Office and the Federal Deposit Insurance Corporation that no objection would be seen to permitting the Justice Department to have access to such reports. This was stated also to be the view of the Board's staff.

No view to the contrary being expressed by members of the Board, it was understood that earnings and dividend reports of the State member banks concerned would be made available to the Department of Justice if the anticipated letter from the Department should be received.

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As to reports of examination, Mr. Hackley's memorandum stated that representatives of the Comptroller of the Currency and the Federal Deposit Insurance Corporation had indicated that their respective agencies would refuse to make available to the Justice Department the reports concerning the banks involved. In support of this position, they referred to the following statement made by Senator Fulbright on the floor of the Senate before the Bank Merger Act was passed:

"\* \* \* while cooperation is, of course, expected between the banking agencies and the Justice Department, it is not intended that this provision (requiring Justice to report on competitive factors) should give the Justice Department free entry to the files of the banking agencies. It is not intended that the Justice Department would have any occasion to examine the banking agencies' files relating to the banking factors under consideration, and in particular, it is expected that the banking agencies will continue to give the bank examiners' reports the same confidential treatment which the Department of Justice gives to FBI reports."

In the circumstances, Mr. Hackley's recommendation was that the Board also take a position against affording access to examination reports of the State member banks concerned in the mergers.

Governor Mills stated that he agreed with this recommendation and that he wished to state again the sentiments he had expressed on previous occasions with respect to maintenance of the confidentiality of documents of this kind. He commented that a bank examination constitutes an appraisal of a bank's position and a judgment as to the solvency and condition of the bank. It is a document that has come out of a relationship very much akin to that existing between lawyer and

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client, and the contents of an examination report, unless that document should be subpoenaed, should be held in sacred confidence. He considered this to be especially true in a situation where the Justice Department was appearing in an adversary capacity, and in connection with litigation unrelated to the examination function.

Later in the meeting Governor Mills commented further in this regard, referring specifically to a recent court decision which upheld the Bureau of the Census in its refusal to release to the Federal Trade Commission, for use in connection with a proceeding by the Commission against a certain party, information supplied by that party to the Bureau. He also referred to an instance in which the Board had in effect rejected a request from the Justice Department for statistics furnished to the Board on a confidential basis by an automobile finance company.

Governor Robertson stated that he could not concur in the suggestion that the examination reports in question be withheld from the Department of Justice. He regarded the statement by Senator Fulbright, urged in support of such a position by the other banking agencies, as irrelevant to the situation. To take such a position, he suggested, would run counter to the history of relationships between the Justice Department and the bank supervisory agencies over a long period of time. The Justice Department, he brought out, is the chief law enforcement agency of the Government, and the Board is an agency of the

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Government. The Board must have due concern for the protection of confidential documents, but it should not prevent the chief law enforcement agency of the Government from obtaining leads to information. The Board should not voluntarily permit the introduction of examination reports in evidence in connection with proceedings brought by the Department, but thus far experience had shown that the Department used such reports only for the purpose of obtaining leads. Therefore, upon request, he would favor making the reports in question available to the Department for that purpose irrespective of the position taken by the other bank supervisory agencies.

Governor Shepardson indicated that he was inclined to agree with Governor Robertson. While he thought there was a basis for objecting to the use of examination reports in evidence, he did not see how the Board could deny to the Justice Department the opportunity to inspect such reports in order to obtain leads.

Governor King inquired concerning past practice, and Mr. Hackley replied that from time to time, in connection with criminal proceedings, the Board had permitted inspection of examination reports by the Department of Justice, including United States Attorneys, for the purpose of obtaining leads. Mr. Solomon confirmed this statement and added that in one case where the Department of Justice had under consideration an antitrust proceeding in a bank merger case in the Pittsburgh area the Board had instructed the staff to permit a



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representative of the Department to have access to bank examination files on the Board's premises.

In reply to a question concerning whether a distinction could be drawn for this purpose between criminal and civil actions, Mr. Hackley said that this might be a distinction without a difference. In bank merger cases, he noted, the Justice Department was carrying out its responsibility for enforcement of the antitrust laws.

In further discussion, Mr. Hackley pointed out that the Board's Rules of Organization provide that the Board may make available to certain other agencies of the Government copies of reports of examination and other information for use where necessary in the performance of the official duties of such agencies.

Governor King then referred to the language of the statement by Senator Fulbright on the floor of the Senate, as quoted in Mr. Hackley's memorandum, and indicated that he found it difficult to believe that this statement did not cover rather conclusively the situation with respect to the use of examination reports in connection with bank merger cases. Accordingly, he wished to associate himself with the position taken by Governor Mills.

Governor Balderston said it was distasteful to him to have bank examination reports used in the manner contemplated, but that he thought this was inherent in the setup.

Chairman Martin referred to a question that had been raised regarding the pertinence of information in the examination reports to

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an antitrust proceeding. He expressed agreement with the view that essentially the examination report probably was not a pertinent document. He went on to suggest, however, that the problem seemed to come back to the question of broad public relations. Generally speaking, it was his philosophy that in protecting the confidentiality of information the Board ought to be sure it was acting on a basis that would be understood by the public and that it would not look as though the Board was just trying to be mysterious in its operations. On some matters, he noted, it was difficult to make a distinction.

It was, therefore, the view of the majority of the Board, from which Governors Mills and King dissented, that, in the event the anticipated letter should be received from the Justice Department, the position of the Board should be that it would permit representatives of the Department to have access to examination reports of the banks in question for the purpose of obtaining leads but not for use in evidence.

This being the majority view, Mr. Hackley inquired whether, if such a request should be received, it would not be desirable to communicate with the Office of the Comptroller of the Currency and with the Federal Deposit Insurance Corporation prior to taking any action on the request of the Justice Department.

The reply given by the Chairman, from which no dissent was heard, was that this should be done before any reply was made to the Justice Department. Then, if the other banking agencies wished to make any representations to the Board, they should be permitted to do so.

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A final matter covered in the memorandum from Mr. Hackley related to advice he had received from the Justice Department that counsel for the banks involved in the proposed Philadelphia merger planned to serve upon the Department on Monday, March 27, a proposed order and motion which would request the court to direct the Department to produce for inspection and copying (1) the reports on competitive factors made to the Comptroller of the Currency by the Board and the Federal Deposit Insurance Corporation, and (2) the report prepared by the Comptroller containing the findings upon which his approval of the merger was based. The motion, a draft of which had been furnished to Mr. Hackley, stated that the defendants had asked the Attorney General, the Comptroller, the Board, and the Corporation to make such reports available but that none of such reports had yet been received from any of such persons.

Mr. Hackley proposed to advise the Department of Justice by telephone (1) that the Board had furnished a copy of its report on competitive factors to counsel for the Philadelphia banks, and (2) that the Board would urge that every effort be made to avoid production of staff memoranda prepared in the Comptroller's Office other than a statement of reasons for the Comptroller's approval of a merger in the form in which such statement would be published in his annual report to Congress.

No disagreement being indicated, it was understood that Mr. Hackley would advise the Department of Justice in such manner.

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Messrs. Shay, Hackley, Solomon, Hexter, Leavitt, and Wood then withdrew.

There ensued a discussion of a matter related to the current Treasury advance refunding operation, concerning which a memorandum has been placed in the files of the Federal Open Market Committee, following which the Board went into executive session.

The Secretary later was informed that during the executive session the Board took the following actions:

To succeed Arthur W. Marget, who had resigned effective March 26, 1961, the Board appointed Ralph A. Young as Director of the Division of International Finance effective March 27, 1961, with the understanding that Mr. Young also would continue in the position of Adviser to the Board.

Mr. Young was authorized to accompany Chairman Martin on a trip to Europe which would include attendance at a meeting of the Economic Policy Committee of the Organization for Economic Cooperation and Development scheduled to be held in Paris, France, in mid-April 1961.

After consideration of a file that had been circulated to the Board, approval was given to a letter to the Federal Reserve Bank of New York interposing no objection to plans approved by the Board of Directors for foreign travel by members of the staff of the Bank during 1961. A copy of the letter is attached as Item No. 5.

The meeting then adjourned.

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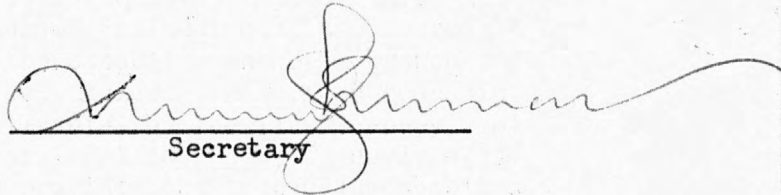
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Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Administrative Services dated March 20, 1961, recommending the appointment of Mary W. Cooley as Cafeteria Helper (part-time), with basic annual salary at the rate of \$1,698, effective the date of entrance upon duty.

Memorandum from the Division of Administrative Services dated March 13, 1961, recommending acceptance of the resignation of Myrtle I. Ellicott, Clerk-Typist in that Division, effective at the close of business April 21, 1961.

Memorandum from the Division of Personnel Administration dated March 22, 1961, recommending that the salary rate for Substitute Nurses be increased from \$18 per day to \$20 per day, effective March 22, 1961.



Secretary

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

Item No. 1  
3/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1961

Board of Directors,  
The First Pennsylvania Banking  
and Trust Company,  
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors approves the establishment of a branch at 401 West Chester Pike, Llanerch, Haverford Township, Delaware County, Pennsylvania, by The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania. This approval is given provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
3/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1961

Board of Directors,  
The York Bank and Trust Company,  
York, 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 1906 Carlisle Road, Shiloh, West Manchester Township, York County, Pennsylvania, by The York Bank and Trust Company, York, Pennsylvania. This approval is given provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
3/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 22, 1961

Mr. Arthur Littleton,  
Morgan, Lewis & Bockius,  
2107 Fidelity-Philadelphia Trust Building,  
Philadelphia 9, Pennsylvania.

Dear Mr. Littleton:

This refers to your letter of March 7, 1961, to Mr. Frederic Solomon, Director of the Board's Division of Examinations, requesting a copy of the report submitted by the Board of Governors to the Comptroller of the Currency, pursuant to Public Law 86-463, with respect to the competitive factors involved in the proposed merger of The Philadelphia National Bank and the Girard Trust Corn Exchange Bank. A copy of that report is enclosed. It should be noted that, pursuant to the terms of the statute, this report related only to the competitive factors involved in the proposed merger and not to other factors which the Comptroller was required by the statute to consider.

For your information, the Board has indicated to the Department of Justice, in response to an inquiry from the Department, that the Board has no objection to the Department's offering a copy of the above-mentioned report in evidence in the pending antitrust proceeding or to its being made available by the Department to counsel for the banks involved.

Very truly yours,

Merritt Sherman,  
Secretary.

Enclosure



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

Item No. 4  
3/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 22, 1961

Mr. Lee Loevinger,  
Assistant Attorney General,  
Antitrust Division,  
U. S. Department of Justice,  
Washington 25, D. C.

Dear Mr. Loevinger:

This is in response to Mr. Kirkpatrick's letter of March 8, 1961, to Chairman Martin, requesting permission to offer in evidence and to make available to defense counsel copies of the reports submitted by the Board of Governors to the Comptroller of the Currency, pursuant to Public Law 86-463, with respect to the competitive effect of (1) the proposed merger of The Philadelphia National Bank and the Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, and (2) the proposed merger of the First National Bank and Trust Company and the Security Trust Company, Lexington, Kentucky.

The Board has no objection to the Department's offering such reports in evidence and to their being made available to defense counsel in the antitrust proceedings instituted by the Department of Justice with respect to these proposed mergers. The Board hopes that, in connection with any such use, it will be made clear that, in accordance with Public Law 86-463, these reports related only to the competitive factors involved in the merger proposals and not to other factors which the Comptroller was required by the statute to consider.

In response to a request by counsel for The Philadelphia National Bank and Girard Trust Corn Exchange Bank, the Board has furnished to them a copy of its report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of those banks.

Very truly yours,

Merritt Sherman,  
Secretary.



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

Item No. 5  
3/22/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 22, 1961

Mr. Alfred Hayes, President,  
Federal Reserve Bank of New York,  
33 Liberty Street,  
New York 45, New York.

Dear Mr. Hayes:

Your letter of February 20, 1961, regarding foreign travel plans of officers and members of the staff of your Bank during the current year has been brought to the attention of the Board of Governors. The Board has no objection to the plans approved by your Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.