

109
6/61

Minutes for August 16, 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. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on
Wednesday, August 16, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. King

Mr. Kenyon, Assistant Secretary
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. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Chase, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Langham, Chief, Call Report Section, Division
of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on August 14, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

8/16/61

-2-

	<u>Item No.</u>
Letter to Security Trust Company, Lynn, Massachusetts, approving an investment in bank premises.	1
Letter to Manufacturers Trust Company, New York, New York, approving an extension of time to establish a branch at 685 Third Avenue.	2
Letter to Union Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch at 1225 Leonard Street, N. E.	3
Letter to Santa Barbara National Bank, Santa Barbara, California, approving its application for fiduciary powers.	4
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in El Centro.	5
Letters to Wells Fargo Bank American Trust Company, San Francisco, California, approving the establishment of branches in (1) Chico, (2) Redding, (3) Eureka, and (4) Salinas.	6-9
Letter to the Presidents of all Federal Reserve Banks transmitting instructions for the review of reports of condition for deposit insurance assessment purposes.	10

In connection with Items 6-9, there was a general discussion, at the instance of Governor Balderston, concerning the standards according to which applications for additional branch banking offices in California might be appraised, reference being made by Governor Balderston in the course of his remarks to the staff study of banking in California that had been distributed to the Board under date of August 3, 1961.

8/16/61

-3-

Governor Mills raised the question whether such applications, as a practical matter, did not have to be approached on a basis somewhat different from applications by banks in other States. He suggested that in California there was the fact that several large branch banking institutions were in existence, and that undue severity in appraising their applications would seem to run counter to developments in that State where, according to the study, additional banking facilities were required rather than a limitation on such facilities. Although the unit banks had dropped behind, that seemed almost to be something that must be accepted. The question of drawing a line might deserve discussion at some time, but the situation in California was a difficult one and it appeared to him that branch applications might have to be treated differently from those in other States where branch banking was not so highly developed or so concentrated in a relatively few institutions.

Mr. Solomon expressed agreement with the view that it was necessary to accept the facts of the situation. Quite possibly there would be more smaller banks entering the field if the present situation had not developed. Under existing conditions, however, although a few new banks had been started and seemed to be coming along fairly well, it appeared likely that the large branch organizations would continue to control the major share of the banking business.

Governor Balderston indicated that his views were similar to those expressed by Governor Mills. In his opinion, perhaps the best

8/16/61

-4-

competitive situation could be created by fostering the growth and strengthening of the leading competitors to the largest bank in the State.

In connection with Item No. 10, Mr. Hackley noted that a purpose of the 1960 amendments to the Federal Deposit Insurance Act was to eliminate differences in the definition of deposits. In this respect, he suggested that the Board might wish to reverse two rulings, published in 1942 and 1944, which held that income taxes withheld from employees' salaries, and deductions of Social Security taxes, by member banks should be treated as "other liabilities" in condition reports and for reserve purposes. The Federal Deposit Insurance Corporation had always treated such moneys as deposits and had two court decisions (handed down subsequent to the Board's rulings) to support its position. Mr. Hackley added that the Legal Division had prepared a draft letter on this subject that could be sent to the Federal Reserve Banks if the Board approved the Division's recommendation that the 1942 and 1944 rulings be reversed.

At the request of the Chairman, Mr. Hackley then read the proposed letter. There being no objection, the Board approved unani- mously the transmittal of the letter to the Federal Reserve Banks, with the understanding that the substance of the letter would be published in the Federal Register and the Federal Reserve Bulletin. A copy of the letter is attached as Item No. 11.

Revision of member bank call report (Item No. 12). There had been distributed a memorandum from the Division of Bank Operations dated

8/16/61

-5-

August 14, 1961, submitting a proposed revision of the member bank call report. Attached to the memorandum was a sample of the revised report, based on the April 1961 call, together with a draft of letter to the Federal Reserve Banks requesting their comments. The proposed letter suggested that the new format might be adopted as the official report, effective with the forthcoming call date.

Aside from suggesting that the experimental report be distributed to the Reserve Banks for comment, the Division of Bank Operations recommended in its memorandum that future call reports be published without data for individual reserve cities, because such data were believed to be largely meaningless and because in some instances this would result in the disclosure of unpublished figures for individual banks. As a possible compromise, it was suggested that such data might be included temporarily in a supplement to the call report that would be distributed only within the System, and that the supplement eventually be discontinued unless there was a demand for it. The Division also recommended that it be authorized to negotiate with the Federal Deposit Insurance Corporation regarding the possibility of developing a joint report that would show assets and liabilities of all insured commercial banks in a format agreeable to both agencies and similar to the proposed new member bank call report.

At the request of the Board, Messrs. Farrell and Langham described the development of the experimental report, which was made possible by

8/16/61

-6-

the use of electronic equipment, together with the substantial improvements in terms of data, time, and expense and the questions remaining to be resolved, as stated in the memorandum.

In discussion, during which all of the members of the Board expressed themselves favorably with respect to the revised procedures and format, Governor Mills raised the question whether the issuance of a joint report for all insured commercial banks would result in undue delay, and the reply by Mr. Langham was to the effect that the extension of the member bank report to a report for all insured commercial banks should not result in a delay of more than a couple of days, in view of processing procedures currently utilized by the Federal Deposit Insurance Corporation.

In reply to a question by Governor Balderston, Mr. Farrell reviewed the reasons, stated in the Division memorandum, why data for individual cities were often misleading or meaningless. Mr. Noyes pointed out that such data could always be made available if needed for some particular purpose. Thus, the only question was whether these data should be made available for public distribution or, in the alternative, for distribution within the System on a regular basis.

After further discussion, the recommendations of the Division of Bank Operations were approved unanimously. A copy of the letter sent to the Presidents of all Federal Reserve Banks in accordance with this action is attached as Item No. 12.

8/16/61

-7-

Messrs. Noyes, Conkling, Benner, and Langham withdrew from the meeting at this point.

Report of examination of Federal Reserve Bank of Dallas. The report of the examination of the Federal Reserve Bank of Dallas made by the Board's examining staff as of May 11, 1961, had been circulated to the Board, along with the usual accompanying memoranda.

Mr. Smith commented on matters disclosed by the examination, and on the basis of his comments it was agreed that there were no matters appearing to require action on the part of the Board.

Salaries of Reserve Bank examiners and auditors. Governor Balderston said that Mr. Solomon had discussed with him certain questions regarding salary scales for Federal Reserve Bank examiners and auditors. In this connection, he indicated that the members of the Budget Committee would appreciate the advice of the Board with respect to a point that Mr. Solomon had raised.

Governor Balderston then commented that it had been the general philosophy of System salary administration that the individual Reserve Banks should have responsibility for internal alignment of salaries, but that inconsistencies developing between Banks should be watched and communicated to the Reserve Banks in order to prevent inequities as the result of lack of knowledge. He mentioned this philosophy because it was his view that the Budget Committee, in its discussions with the respective Presidents, ought not indicate what salaries should be paid to particular

8/16/61

-8-

individuals or for particular occupations. At the same time, various references in the Board's minutes over a period of years reflected concern regarding the compensation of Reserve Bank examiners, who have to deal regularly with bank presidents and other senior bank officials. He had heard the view expressed frequently that the salary scales for examiners, and to a lesser degree Reserve Bank auditors, were not adequate to attract and retain men of sufficient caliber, but up to this point little appeared to have been done about the problem. In that connection, Governor Balderston said, he had asked Mr. Solomon to prepare some material that could be used by the Budget Committee, and Mr. Solomon had furnished two tables--one showing the salary scale for examiners throughout the System, and the other showing the scale for auditors. Governor Balderston indicated he felt these data might be useful to the Reserve Bank Presidents, each of whom could use his discretion as to whether or not it would seem desirable to re-examine the existing salary scales for examiners and auditors at his Bank. Distribution of such information to the respective Presidents, Governor Balderston noted, would probably have the effect of encouraging some upward movement in the salaries of examiners, and possibly also auditors.

At the request of Governor Balderston, Mr. Solomon commented that it had been found that 27 examiners from the Office of the Comptroller of the Currency, including at least one from each district, received at least \$15,000 a year. However, no Federal Reserve Bank examiner received

8/16/61

-9-

that amount, most of the top salaries running in the neighborhood of \$12,000. Mr. Solomon said he had some question whether, at the Reserve Banks, there might not be something of a psychological factor involved, since the Banks to a considerable degree are production organizations and there may be a rather strong inclination to think in terms of a pyramid type of salary structure. This type of structure, however, might not be appropriate for the bank examining field.

In further discussion of this matter, Governor Mills commented that examiners for the Comptroller of the Currency and Federal Deposit Insurance Corporation are in a sense United States Government officials, while examiners for a Reserve Bank are employees of a banking institution that is different in theory and concept from the Federal establishment. The Reserve Banks, he judged, felt it necessary to relate the salaries of the examining staff to the salary scales for the other departments of the Bank so as to maintain a balance. His own feeling had been, right along, that Reserve Bank examiners tended to be underpaid, even in relation to employees in other divisions of the Bank. However, the Reserve Bank Presidents could not ignore the problem of maintaining a balance within the organizations for which they were responsible.

Mr. Solomon responded to the effect that the problem referred to by Governor Mills was recognized by the Division of Examinations. As to the managements of the Reserve Banks, he felt that perhaps it had been weighed too heavily. In his opinion, there may have been a tendency

8/16/61

-10-

to underemphasize the distinctions between duties in the examining field and other departments of the Banks.

After further comments regarding the concern felt about this matter in various quarters throughout the System, Mr. Solomon turned to the duties of Reserve Bank auditors and referred to a tendency to look upon auditing as a largely routinized and mechanical type of function. While this was true in part, more so than in the examining function, he believed the current general thinking in regard to the function of internal auditing was in the direction of giving more emphasis to what the auditor could contribute toward the improvement of operations and less attention to the purely mechanical aspects of the work. He felt the Reserve Banks might not be quite in step with the times in respect to what the audit function should be expected to accomplish in an institution. The function of internal analysis would require staffing the audit departments at a higher level, and the very fact of the independence of the auditor might create some problem, in that the auditor reports not to the President of the Bank but to the Audit Review Committee, which may not have a great deal to do with setting salary classifications. In this connection, Mr. Solomon added that the revised examining techniques now being put into effect by the Board's field examining staff would require that the audit staffs of the respective Reserve Banks perform a thorough and imaginative job.

8/16/61

-11-

At the conclusion of the discussion, Governor Balderston inquired whether any objection would be seen to the Budget Committee making available to the individual Reserve Bank Presidents the tabulations, to which he had referred previously, on the salary structures for examiners and auditors throughout the System, and no objection was indicated.

Matters relating to current examination of Kansas City Reserve Bank. Governor Balderston commented that about a year ago he was asked by the Board to talk with the Chairman of the Kansas City Reserve Bank regarding a fund that was not recorded on the general books of the Bank and did not appear in any of the Bank's statements. The fund, which was used for the purpose of making small charitable and similar contributions, had its origin in an arrangement that was in effect prior to 1924 whereby notary fees derived from the protesting of unpaid items were placed in the fund. When this matter was discussed at the meeting on August 18, 1960, the Board expressed the view that the Bank should not continue to maintain and administer such a fund, and he (Governor Balderston) was requested to suggest to the Chairman of the Bank that some appropriate disposition be made of the assets. Subsequently, Governor Balderston said, he talked with Chairman Hall and gained the impression that the matter would be taken care of. However, it had recently come to his attention through the Division of Examinations that the fund was still in existence and was being used in the same manner as previously. He was, therefore, requesting the Board's guidance as to the manner in which the question should be pursued.

8/16/61

-12-

After discussion, it was agreed that Governor Balderston would again discuss this subject with the management of the Reserve Bank with a view to ascertaining the full facts and bringing the matter to a conclusion.

Governor Balderston then commented that in the course of examining the Kansas City Bank the examiners had noted that the Bank was paying associate membership dues to the Kansas City Athletic Club for certain out-of-town directors. Apparently, this was done in order to assure the directors suitable accommodations while in the city to attend directors' meetings. However, this raised the question whether the payment of such dues went beyond the Board's letter of December 6, 1956, specifying maximum directors' fees and allowances.

In a discussion that ensued, reference was made to various aspects of the matter, such as the difficulty experienced in obtaining outstanding individuals to serve as Reserve Bank directors, the amount of leeway that should be reserved to the individual Reserve Banks in working out arrangements for accommodations and similar items in the light of local circumstances, and the possibility that the Kansas City directors concerned were unaware of the fact that payments were being made to the Club on their behalf. It was the general view that the subject should be explored with the Reserve Bank and that the full facts should be made available to the Board for consideration.

8/16/61

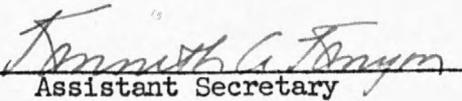
-13-

At the conclusion of the discussion, it was understood that this matter, like the matter of the special fund referred to previously at this meeting, would be discussed with the management of the Kansas City Reserve Bank.

The meeting then adjourned.

Secretary's Notes: Acting in the absence of Governor Shepardson, Governor Balderston today approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond (attached Item No. 13) approving the appointment of Robert G. Murphy as an assistant examiner.

Pursuant to the recommendation contained in a memorandum from the Division of Personnel Administration, Governor Balderston also approved today on behalf of the Board acceptance of the resignation of Sally B. Kirby, Substitute Nurse, effective August 8, 1961.


Assistant Secretary

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

Item No. 1
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Security Trust Company,
Lynn, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Security Trust Company of not to exceed \$650,000 for the purpose of renovating and remodeling present main office quarters and installing drive-in facilities.

It is understood that, in accordance with approval given by the Commissioner of Banks of the Commonwealth of Massachusetts, the carrying value of bank premises will be reduced \$100,000 under a program of accelerated depreciation within the next ten years.

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
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Manufacturers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 23, 1962, the time within which Manufacturers Trust Company, New York, New York, may establish a branch at 685 Third Avenue, New York, New York.

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
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Union Bank and Trust Company,
Grand Rapids, 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 at 1225 Leonard Street, N. E., Grand Rapids, Michigan, by Union Bank and Trust Company, 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. 4
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Santa Barbara National Bank,
Santa Barbara, California.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants Santa Barbara National Bank authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of California. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 5
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the downtown business section of El Centro, Imperial County, California, by United California Bank, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 6
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Wells Fargo Bank American Trust Company,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at the northeast corner of Camellia Way and Memorial Way, Chico, Butte County, California, by Wells Fargo Bank American Trust Company, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 7
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Wells Fargo Bank American Trust Company,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the downtown business section of Redding, Shasta County, California, by Wells Fargo Bank American Trust Company, 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. 8
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Wells Fargo Bank American Trust Company,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the downtown business section of Eureka, Humboldt County, California, by Wells Fargo Bank American Trust Company, provided the branch is established within six months 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. 9
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Board of Directors,
Wells Fargo Bank American Trust Company,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch on U. S. Highway 101 in the vicinity of East Laurel Drive and Alvin Drive, Salinas, California, by Wells Fargo Bank American Trust Company, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

S-1805

Item No. 10
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961.



Dear Sir:

Under the revised Federal Deposit Insurance Act, it will be necessary for deposit insurance assessment purposes that Federal Reserve examiners verify certain portions of all reports of condition published between examinations starting with the report of condition dated April 12, 1961. For this purpose, there is attached a copy of "Instructions for the Review of Reports of Condition for Deposit Insurance Assessment Purposes," and a sufficient number of copies will be sent under separate cover for each member of your examining staff. If any questions arise from the use of these instructions, please refer them to this office for consideration.

Until page 16 of the report of examination is revised, please type in the dates of all reports of condition verified, instead of merely the date of the last report, and list on a supplemental page (16(1)) any errors in these reports, identified with the date of the report of condition to which they refer. An extra copy of the supplemental page should be forwarded with the report of examination for transmittal to the Federal Deposit Insurance Corporation. The copy prepared for the FDIC should also include the dates of the reports of condition reviewed, the dates of the previous and current examinations, and the name and address of the member State bank. For purposes of identification, this FDIC copy could be captioned "Reports of Condition." If no errors in reports of condition are reported, only the FDIC copy of the supplemental page should be forwarded with a comment such as "No exceptions noted," and none should be included in the report of examination.

Examiners should continue to advise banks of all errors in reports of condition and to obtain necessary correction. If there are unresolved questions resulting from a disagreement between the examiner and the bank, the matter should be fully discussed on the supplemental page 16(1), and a copy of the examiner's comments should be included in the FDIC copy.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

S-1806

Item No. 11
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1961

Dear Sir:

In a ruling published in the 1942 Federal Reserve Bulletin, page 532 (F.R.L.S. #5981), the Board stated that deductions of Social Security taxes by a bank from salaries of its employees should be treated as "Other liabilities" in condition reports and not as deposits for reserve purposes.

In a ruling published in the 1944 Bulletin, page 670 (F.R.L.S. #5982), the Board applied the same principle with respect to (1) State income taxes withheld from salaries of a bank's own employees who reside outside the State, and (2) Federal income taxes withheld from payments made by a bank as disbursing agent for dividends, bond interest, etc., where withholding at source is required under the Internal Revenue Act.

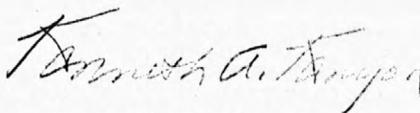
On the other hand, the Federal Deposit Insurance Corporation has always regarded moneys withheld for these purposes as deposits that should be included in the assessment base for deposit insurance. Its position was upheld in two cases decided by Federal Courts under the Federal Deposit Insurance Act prior to its amendment in 1960 and the regulations of the FDIC in force at the time. In 1955 the United States District Court for the Southern District of New York decided that withheld income and Social Security taxes, and taxes on dividends and interest on securities, payable by the bank as agent for the issuing corporations, should be included as deposits in the assessment base (FDIC v. Irving Trust Co., 137 Fed. Supp. 145, 154). In 1957 the United States Court of Appeals for the Seventh Circuit held that money withheld by the bank for payment of Federal income taxes on its employees' salaries and for payment of employees' share of Federal Social Security taxes were deposits and should be included in the assessment base (FDIC v. Cont. Ill. N. Bk., 245 F. 2d 567, 576).

When the Federal Deposit Insurance Act was amended on July 14, 1960, the definition of the term "deposit" in 12 U.S.C. 1813 (1) was expanded to include specifically "withheld taxes." Since one of the



primary purposes of the 1960 amendment was to eliminate differences in the definition of deposits for purposes of (a) reports of condition submitted to the three Federal supervisory agencies, (b) reserve requirements, and (c) Federal deposit insurance assessments, and in view of the court decisions referred to above, the Board has decided that the two rulings published in the Federal Reserve Bulletin for 1942 and 1944, referred to above, should be regarded as superseded and that withheld taxes, including withheld income taxes and Social Security taxes of a bank's own employees, should be classified hereafter as deposits in condition reports and in computing required reserves.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 12
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961.

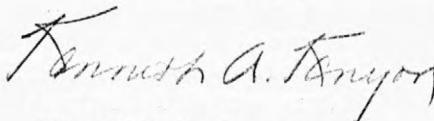
Dear Sir:

Enclosed are 10 copies of a revised and experimental format of the Member Bank Call Report as of April 12, 1961, and of a self-explanatory memorandum regarding it. It will be appreciated if you will distribute these copies among the users of these data at your Bank, and submit any comments or suggestions within 30 days.

The Board is considering a recommendation of the Division of Bank Operations that the new techniques and format be adopted as the official report, effective with the forthcoming call date.

The major problems would seem to be with respect to the disclosure of detailed data of groups containing less than three banks and whether data regarding individual reserve cities are necessary in the report itself or in a supplement for internal distribution; a minor question involves the method of stitching the final product. All of these matters are set forth in the memorandum.

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 13
8/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1961

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in
your letter of August 11, 1961, the Board approves the
appointment of Robert G. Murphy as an assistant examiner
for the Federal Reserve Bank of Richmond, effective
today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

