Minutes for April 9, 1962

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
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System on Monday, April 9, 1962. 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Cardon, Legislative Counsel
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. Johnson, Director, Division of Personnel Administration
Mr. Connell, Controller
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Lyon, Review Examiner, Division of Examinations

Circulated or distributed items. 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:

Letter to the Federal Reserve Bank of New York interposing no objection to the employment of the architectural firm of York & Sawyer to make a formal survey and proposal concerning modernization of the Bank's elevator facilities.

Letter to The Oregon Bank, Portland, Oregon, approving the establishment of a branch at 10th Avenue West and Lincoln Street, Eugene.

Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in the vicinity of California State Highway #1 and Carmel Valley Road in Carmel Valley, Monterey County.

Letter to Hi-Vi, Inc., Miami, Florida, granting its request for a determination exempting it from holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

Letter to the Investment Bankers Association of America, Washington, D. C., regarding the legal status of "certain transactions by banks in municipal revenue bonds."

With respect to Item No. 5, question was raised during discussion as to whether the letter should express a view against removal of existing legal restrictions on dealing or underwriting by member banks in municipal revenue bonds, in line with the position taken by the Board several years ago when legislation to relax such restrictions was under consideration. It was noted that the current inquiry apparently grew out of certain transactions
by banks to which the Investment Bankers Association took exception, yet the questions presented by Mr. Calvert were hypothetical in character, which made it seem to the staff inadvisable to attempt to answer them categorically. Should the Association wish to present the facts of actual transactions, the door was left open. However, for the purpose of clarification of the existing law, it was agreed to include in the letter a paragraph specifying that municipal revenue bonds were not comprehended by the exemption in section 5136 of Revised Statutes removing general obligations of a State or political subdivision from the statutory restrictions on member banks' dealing in, or underwriting of, securities.

Messrs. Hooff and Leavitt withdrew from the meeting at this point and Messrs. Thomas, Adviser to the Board, and Molony, Assistant to the Board, entered the room.

First Oklahoma Bancorporation (Item No. 6). At the meeting on March 16, 1962, there was discussion of the procedural alternatives that might be followed in the matter of the application by First Oklahoma Bancorporation, Oklahoma City, Oklahoma, for approval of the formation of a bank holding company, at the conclusion of which it was agreed, in the light of differing views expressed, that the matter would be considered further at another meeting.

Mr. O'Connell noted that letters from more than 50 banks expressing objection to the formation of the holding company had now
been received. The banks that had objected represented nearly half of the counties in Oklahoma; depositwise, they represented approximately 40 per cent of the bank deposits in the State.

Mr. O'Connell went on to point out that opposition to the application had been based generally on two arguments; namely, (1) formation of the proposed holding company would result in circumvention of the laws of the State prohibiting establishment of branch banks, and (2) approval of the application would result in "opening the floodgates" for the formation of other bank holding companies in Oklahoma. In two instances, however, the objections were related specifically to the statutory factors that the Board must consider with respect to holding company applications.

Mr. O'Connell also stated that if the Board should decide to hold a formal public hearing, the earliest date that probably could be set, considering the procedures necessarily involved, would be about the first week in June 1962.

During the ensuing discussion, Governor Mills referred to the view expressed at the meeting on March 16 that the objections that had been received were not pertinent to the legal responsibilities of the Board in administering the Bank Holding Company Act. The objections were principally to a bank holding company per se, and not to the specific factors that must be considered by the Board in connection with the proposed organization of a bank holding company. If a hearing
were held in these circumstances, there might be just as much reason to hold a hearing if savings and loan associations or credit unions took exception to the formation of a bank holding company on the ground that its creation would be detrimental to their interests.

Chairman Martin commented that he had received numerous telephone calls about the application, indicating considerable interest in the matter. As he saw it, the Board could stand on technical grounds and say that a hearing was not required. However, it would seem to him more clear cut in this instance to hold a hearing, especially in view of the apparent public interest. The Board then would be in a stronger position, having given an opportunity to interested parties to express their views publicly.

In his judgment, the Chairman said, the Board had a responsibility that was larger than its technical responsibility under the law. That larger responsibility required the Board to be as fair and just as possible in its procedures, recognizing that many people did not understand the technical aspects of these cases. In his own mind, he was convinced that the Board would appear in a more favorable position by ordering a hearing than it would if a decision were made "out of hand." It was important to keep away from an approach that might create a public impression that the Board operated from an "ivory tower."

There followed a discussion in which the members of the Board, except Governor Mills, generally concurred with the procedure favored
by the Chairman, in light of the circumstances described by him.

Accordingly, it was agreed, with Governor Mills dissenting, to hold a formal public hearing with respect to the application by First Oklahoma Bancorporation. It was understood that the Legal Division would go forward with the necessary preparations, and that a report on the arrangements made for the hearing would be presented to the Board.

Secretary's Note: A notice of public hearing was issued on April 12, 1962, in the form attached as Item No. 6.

Messrs. Thompson and Lyon then withdrew from the meeting.

Membership on board of Bank for International Settlements.

At the meeting on September 14, 1961, the question whether Federal Reserve membership on the board of directors of the Bank for International Settlements would be desirable was discussed, but no conclusion was reached.

The matter having been placed on the agenda for this meeting for further consideration, Mr. Young responded to a request from the Chairman for comment. He understood that the present arrangement, under which representatives of the System participated as guests and observers in the functions and activities of the Bank for International Settlements, was satisfactory to the management of the Bank. If, however, the Board would like the present arrangement made more formal, the management of the Bank was prepared to take such steps as would be in accord with the wishes of the Board in order to work out an arrangement to its satisfaction.
The argument for moving into membership at the present time would be that the role of the Bank in the international situation was becoming more important. The Bank was a place where one could pick up important information, and it provided an opportunity to exchange views with principals and technicians in central banking. Membership would be a symbol of the Federal Reserve's desire to cooperate in making the international payments system workable and durable.

With respect to representation at meetings of the Bank for International Settlements, Mr. Young pointed out that officers of the Federal Reserve Bank of New York regularly attended the monthly meetings; only occasionally did someone from the Board attend. Circumstances of this kind tended to cause foreign central banks to think of the New York Bank when thinking of the Federal Reserve System.

Further, with the participation of the System in foreign currency operations, there was something to be said for more active attendance and formalization of relationships with the Bank for International Settlements, since the Bank was an instrumentality through which exchange of views could be had, and it was at times a center where ad hoc developments had their origin based on recognition of the existence of a theoretical or potential crisis. With the new borrowing arrangement under the International Monetary Fund, there had been set up a kind of inner circle within the Fund consisting of the European countries, Canada, and Japan, and in this respect, also, the Bank for
International Settlements might become a center for important and influential decisions. The borrowing arrangements contemplated discussion outside the Fund among the lending countries, and as yet there had not been a precise mechanism worked out for the conduct of those discussions. Presumably, one or two existing vehicles might be used; namely, the Organization for Economic Cooperation and Development or the Bank for International Settlements. All told, prevailing and prospective conditions seemed to make it desirable to give serious consideration to the possibility of Federal Reserve membership on the board of the Bank for International Settlements.

Following Mr. Young’s remarks, Mr. Furth noted that the language of article 58 of the statutes of the Bank for International Settlements had the effect of describing the New York Reserve Bank as the central bank of the United States and its president as the ex officio member of the board of directors. Thus, article 58 would need to be changed. On the other hand, acceptance of board membership by the Federal Reserve would not affect the ownership of shares in the Bank; the present owners of shares originally assigned to the United States would continue to hold them.

Mr. Hackley commented that the legal aspects of this matter had been explored a number of years ago. As Mr. Furth had indicated, it would be necessary for the Bank for International Settlements to amend article 58 of its statutes. With respect to the Federal Reserve Act, consideration had been given to two provisions of section 10, but it was concluded that those provisions would not prevent
Federal Reserve membership. Under section 10, Board members were required to devote their entire time to the business of the Board, but the position could be taken that membership on the board of the Bank for International Settlements was directly related to the business of the Board of Governors. A second provision prohibited members of the Board from being officers or directors of any banking institution. Obviously, however, the intent of that provision was to prohibit a member of the Board from serving as a director or officer of a commercial bank in this country. In concluding, Mr. Hackley said he felt the views of the Legal Division would be the same as they were when these questions were originally explored.

Chairman Martin then commented on the advantages and disadvantages of membership. He could see some advantages in a formalization of relations with the Bank for International Settlements under present conditions. On the other hand, when a person who is not a shareholder becomes a director of an organization, he assumes some indirect responsibility for its management. The transactions of the organization might be relatively insignificant, as in this case, but nevertheless those transactions provided the profits and lifeblood of the institution. The real question was whether there would be enough merit in joining, rather than merely participating as an observer, to warrant assuming some liability for the operations of the Bank. From the standpoint of United States foreign policy, the
Chairman stated that he did not believe there would be any difficulty in obtaining the endorsement of the State and Treasury Departments.

Following the Chairman's comments, there was a general discussion of the matter during which various facets of the problem were explored. Reference was made, among other things, to the question of possible Congressional or public reaction to notice of Federal Reserve action to accept membership on the board of the Bank for International Settlements. As to the possibility that the Bank's gold operations would run counter to the interests of United States policy, it was the staff view that the risk would be minimal, and some advantage was seen from that standpoint in membership on the Bank's board, which would provide an opportunity to join in the review of such operations.

Governor Robertson stated that while there would be advantages in membership, it was not clear to him how the Board, composed of seven members, could discharge the duties of director effectively. If the Board should rotate its representation at Bank meetings, that would mean each member would attend only infrequently, and there would be a problem of continuity. It was his suggestion that each member of the Board might attend one of the meetings over the next several months. Then the Board might be in a better position to make a judgment with respect to the advantages and responsibilities that would be involved in Federal Reserve membership.
In further comments, there was additional discussion as to whether the benefits not already available under present arrangements would appear to outweigh the apparent difficulties inherent in membership, including the problem of effective Federal Reserve representation at directors' meetings and the actual or implied responsibility for the Bank's operations. It was noted, also, that if membership should be effected, a move at any future time to withdraw from such membership might be embarrassing. Question was raised whether there might be some alternative procedure through which the principal advantages seen in membership could be achieved without the formality of representation on the board of directors, at least on the usual basis, but it was not apparent at this time how that could be done.

In the circumstances, the Chairman suggested that he could explore the matter further if he attended the May meeting of the Bank for International Settlements, with a view to obtaining more complete information and perhaps developing a definite proposal for the Board's consideration. There being no objection to this suggested procedure, the matter was left on that basis.

Messrs. Thomas, Young, Noyes, and Furth withdrew from the meeting at this point.

Review of procedures followed by field examining staff (Item No. 7). There had been distributed a memorandum from the Division
of Examinations dated February 8, 1962, discussing (1) the desirability of selecting at an early date a firm of certified public accountants to make the annual review of the examining procedures followed by the field staff in its examinations of Federal Reserve Banks, and (2) a recommendation that an advisory service, relating to a review of the examiners' work, be arranged with the accounting firm selected to make the annual review.

In commenting, Mr. Solomon noted that each year beginning with 1953 the Board had retained a public accounting firm to review the procedures followed by the field staff. In practice, the accounting firms had selected one examination each year for their field study, which made it desirable to select the firm early in the year. Accordingly, it was now being recommended that a selection be made as soon as possible, assuming that the Board wished to have a survey made again in 1962. To the Division of Examinations, it was immaterial which firm was engaged. It did believe, however, that it would be helpful to arrange with the firm to provide a consulting service. While the field examining staff had made progress in accommodating the revised examining procedures recommended by Price Waterhouse & Co. and approved by the Board, it would be helpful to have the advice of an accounting firm for the purpose of reviewing what had been done to date and preparing for the future. If this advice was obtained separately, it might cost around $6,500; if
combined with the annual procedural survey, the cost of which had run to $12,000-$14,000 in the past, there might be no addition to the total cost.

Following Mr. Solomon's comments, Governor Shepardson said there were two questions involved; namely, the audit of the Board's accounts, and the survey of procedures followed by the field examining staff. Arthur Andersen & Co. had made the Board audits for five years, and Price Waterhouse & Co. had made the audits beginning with 1957. It would seem appropriate, therefore, to select another firm to audit the Board's accounts for the current year. With respect to the field survey, however, he would propose that Price Waterhouse, which had made four surveys, make a fifth one this year. As Mr. Solomon had indicated, the Board had approved the recommendations of Price Waterhouse to change the examining techniques used by the field examining staff. While part of the changeover had been accomplished, the transition was not complete. It would seem unfortunate to bring in a new firm to make a review under such conditions. He would recommend, therefore, that Price Waterhouse be asked to devote its services in 1962 to assisting in the completion of the changeover to the procedures it had recommended, looking forward in 1963 to having another accounting firm make a survey of the changes that had been instituted.

Following discussion, the procedure outlined by Governor Shepardson was approved, with the understanding that Price Waterhouse & Co. would be retained for the purpose indicated in 1962 and that the
Division of Examinations was authorized to enter into discussion with the firm. A copy of the letter sent to Price Waterhouse in this connection is attached as Item No. 7.

Audit of Board's accounts for 1962 (Items 8 and 9). At the meeting on June 9, 1961, authorization was given to the renewal of the arrangements with Price Waterhouse & Co. for auditing the Board's books for the calendar year 1961, with the understanding that a different firm would be engaged for 1962 in accordance with the rotation procedure contemplated at the time employment of outside auditors was decided upon.

In this connection, Governor Shepardson mentioned the names of several nationally known public accounting firms from which a selection might be made, and it was indicated that any one of those firms would be acceptable to the Board.

Following a brief discussion, during which general agreement was expressed with a comment by Governor King that it would appear desirable to think in terms of a three-year rotation of accounting firms in the future, the Board referred to Governor Shepardson, with power to act, the selection by chance of an accounting firm, from among those he had mentioned, to audit the Board's accounts for the calendar year 1962.

Secretary's Note: Governor Shepardson subsequently advised the Secretary that the public accounting firm of Haskins & Sells, Washington, D. C., had been selected to audit the Board's
books and accounts for the calendar year 1962. A copy of the letter sent to that firm is attached as Item No. 8.
A copy of a letter sent to Price Waterhouse & Co. is attached as Item No. 9.

Messrs. Farrell, Johnson, Connell, and Smith then withdrew from the meeting.

Possible amendments to Bank Holding Company Act (Item No. 10).
Chairman Martin reported that he had received a telephone call on Friday, April 6, from Senator Robertson, Chairman, Banking and Currency Committee of the Senate, who discussed the possibility of amending the Bank Holding Company Act to remove the exemption accorded to companies registered under the Investment Company Act of 1940. (This provision had the effect of exempting from the requirements of the Act the Financial General Corporation, a corporation controlling, through subsidiary corporations, banks in a number of States and the District of Columbia.) The Chairman said he pointed out to Senator Robertson that the Board had taken a position in favor of such an amendment. Subsequent to the conversation, he sent to Chairman Robertson a letter under date of April 6 recommending, in line with the Board's position, introduction and enactment of a bill that would amend the Act by repealing the exemption. A copy of that letter also had been sent to Congressman Spence, Chairman, Banking and Currency Committee of the House of Representatives.
In light of this development, consideration was given to whether the Board should take this opportunity to recommend also to Chairman Robertson other amendments to the Bank Holding Company Act, as discussed by the Board earlier this year. In this connection, there had been distributed a memorandum dated March 16, 1962, prepared by the Legal Division, together with a draft bill that would cover the "one-bank" amendment accepted by the Board at the meeting on January 10, 1962. The draft bill, as proposed, would also cover 
(1) repeal of the exemption of a holding company on the ground that it was registered under the Investment Company Act of 1940 before May 15, 1955; (2) repeal of section 6 of the Act prohibiting intra-system investments and extensions of credit by banks in holding company systems; and (3) repeal of the "holding company affiliate" laws. This excluded some 20 possible amendments of a less urgent nature that were originally suggested by the Board in its May 7, 1958, report on the Bank Holding Company Act.

The ensuing discussion centered on the kind of letter that might most appropriately be sent to Senator Robertson. In the area of exemptions provided by the Act, for example, it was noted that there were certain other exemptions, in addition to that provided for companies registered under the Investment Company Act of 1940, that likewise lacked a logical basis and should be repealed.
While there was some feeling that an omnibus amendatory bill should be offered for consideration, question was raised whether separate bills would not stand a better chance of consideration. In this connection, Mr. Cardon suggested that the Board present a draft bill that would incorporate all the amendments that it wanted to recommend. Senator Robertson had available to him a staff that could redraft the bill, leaving out portions if that was felt desirable.

Following further discussion, Mr. Hexter suggested the outline of a letter that might be sent, and agreement was expressed with such a presentation. Copies of the letter and the draft bill subsequently transmitted to Chairman Robertson pursuant to this understanding are attached as Item No. 10. A similar letter was sent to Chairman Spence.

The meeting then adjourned.
Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

This refers to Vice President Bilby's letter of March 28, 1962, summarizing the need for modernizing the elevator facilities in the Bank's main building.

The Board will interpose no objection to the employment of the architectural firm of York & Sawyer at a cost not to exceed $9,500 to make a formal survey and proposal concerning the elevator installation in the main building.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
April 9, 1962

Board of Directors,
The Oregon Bank,
Portland, Oregon.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Oregon Bank, Portland, Oregon, of a branch at the northeast corner of the intersection of 10th Avenue West and Lincoln Street, Eugene, Oregon, provided the branch is established within one year from the date of this letter.

It is understood that capital and surplus will be increased by $200,000 by the sale of new common stock for cash prior to the opening of the branch and capital and surplus will be increased by $200,000 by the same method within six months after the establishment of the branch.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the vicinity of the intersection of California State Highway #1 and Carmel Valley Road in Carmel Valley, Monterey County, California, 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.
April 9, 1962

Mr. Lou Poller, President,
Hi-Vi, Inc.,
Miami, Florida.

Dear Mr. Poller:

This refers to the request contained in your letter of
February 6, 1962, submitted through the Federal Reserve Bank of Atlanta,
for determination by the Board of Governors of the Federal Reserve
System as to the status of Hi-Vi, Inc. of Miami, Florida, as a holding
company affiliate.

From the information submitted, the Board understands that
Hi-Vi, Inc. was organized for the purpose of acquiring and holding
shares of stock of The Miami National Bank, Miami, Florida, and has
no other business activity; that Hi-Vi, Inc. is a holding company
affiliate by reason of the fact that it owns over 50 per cent of the
outstanding shares of stock of The Miami National Bank; and that
Hi-Vi, Inc. does not, directly or indirectly, own or control any stock
of, or manage or control, any other banking institution, and does not
intend to acquire the stock of any other banking institution.

In view of these facts, the Board has determined that
Hi-Vi, Inc. is not engaged, directly or indirectly, as a business in
holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and, accordingly, Hi-Vi, Inc. is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that
Hi-Vi, Inc. might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of Hi-Vi, Inc. result in its
Mr. Lou Poller

attaining a position whereby the Board may deem desirable a determination that Hi-Vi, Inc. is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
April 11, 1962

Gordon L. Calvert, Esquire,
Municipal Director and Assistant General Counsel,
Investment Bankers Association of America,
425 Thirteenth Street, N. W.,
Washington 4, D. C.

Dear Mr. Calvert:

This is in response to your letter of March 27, 1962 inquiring whether "certain transactions by banks in municipal revenue bonds are permissible" under the following provision of paragraph Seventh of section 5136 of the Revised Statutes (12 U.S.C. 24):

"The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not underwrite any issue of securities or stock..."

It is assumed that the banks in question are either national banks, to which this provision of R.S. 5136 is directly applicable, or State banks that are members of the Federal Reserve System, to which it is applicable by virtue of the twentieth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335).

As indicated in your letter, R.S. 5136 exempts "general obligations of any State or of any political subdivision thereof" from the above-quoted restrictions. However, that exemption does not permit national banks and member State banks to underwrite or deal in municipal revenue bonds, since such bonds are not "general obligations" within the meaning of R.S. 5136.

The Board of Governors considers it inadvisable to attempt to answer categorically the two questions enumerated in your letter. The first apparently refers to a situation in which a bank purchases securities as principal and, again as principal, sells the securities
to others. If no other circumstances existed, it would seem that in such a case the bank was acting "for its own account", because the question by its very terms refers to a bank acting for its own account (that is, as principal) rather than for the account of others (that is, as agent). However, the actual nature of particular securities transactions may depend on a number of additional circumstances. For example, the general situation you described might be radically changed if a bank's customer wished to purchase securities that the bank was in a position to acquire from an underwriting syndicate at the offering price less a dealer's concession, and the customer and bank agreed that the bank should purchase the securities in this manner for immediate resale to the customer, taking the dealer's concession in lieu of a commission from the customer. In this connection, attention is directed to an opinion of the Comptroller of the Currency to the effect that a national bank "may not retain commissions, discounts, or rebates, obtained from brokers or dealers unless authorized so to do by the customers for whom it acts as agent." (Federal Banking Law Service (1961) Par. 642.2; see also Par. 642.1, "Prohibition of Underwriting")

You also inquire whether a bank is acting solely upon the order of customers when it actively solicits orders to purchase revenue bonds. As previously indicated, questions as to possible violations of R.S. 5136 ordinarily can best be decided on the basis of the facts of actual transactions. If the banks to which you refer were national banks or member State banks, such questions would be within the jurisdiction of the Comptroller of the Currency or the Federal Reserve System, respectively.

Your letter indicates an impression that the above-quoted statutory restrictions on banks' underwriting of, and dealing in, securities are not applicable to transactions carried out in accordance with "restrictions prescribed by the Comptroller of the Currency". It is the understanding of the Board that the Comptroller does not interpret R.S. 5136 as authorizing him to relax the restrictions prescribed by that statutory provision. You may wish to clarify this matter by communicating with his Office.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
On January 30, 1962, there was published in the Federal Register (27 F.R. 869) a notice of receipt by the Board of Governors of an application filed pursuant to section 3(a) of the Bank Holding Company Act of 1956 [12 U.S.C. 1842] by First Oklahoma Bancorporation, Inc., Oklahoma City, Oklahoma, for the Board's prior approval of action whereby First Oklahoma Bancorporation, Inc., would become a bank holding company through acquisition of a minimum of 28.15 percent of the voting shares of The First National Bank and Trust Company of Oklahoma City, Oklahoma City, Oklahoma, and a minimum of 50.5 percent of the voting shares of The Idabel National Bank, Idabel, Oklahoma.

It appearing to the Board of Governors that it is appropriate in the public interest that a hearing be held with respect to this application:

IT IS HEREBY ORDERED, That, pursuant to section 222.7(a) of the Board's Regulation Y [12 C.F.R. Part 222.7(a)], promulgated under the Bank Holding Company Act of 1956, a public hearing with respect to this application be held, commencing June 5, 1962, at 10 a.m., in the Federal Building, Oklahoma City, Oklahoma, before a duly designated hearing examiner.
such hearing to be conducted in accordance with the Board's Rules of Practice for Formal Hearings [12 C.F.R. Part 263]. The right is reserved to the Board or the hearing examiner to designate any other place or date for such hearing or any part thereof which may be determined to be necessary or appropriate for the convenience of the parties.

IT IS FURTHER ORDERED, That the following matters will be the subject of consideration at said hearing, without prejudice to the designation of additional related matters and questions upon further examination:

(1) the financial history and condition of the company and the banks concerned;

(2) the prospects of said company and banks;

(3) the character of their management;

(4) the convenience, needs, and welfare of the communities and area concerned;

(5) whether or not the effect of such acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

IT IS FURTHER ORDERED, That, any person desiring to give testimony in these proceedings should file with the Secretary,
Board of Governors of the Federal Reserve System, Washington 25, D. C., on or before May 15, 1962, a written request containing a statement of the nature of the petitioner's interest in the proceedings and a summary of the matters concerning which petitioner wishes to give testimony. Such requests will be presented to the designated hearing examiner for his determination, and persons submitting them will be notified of his decision.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.

(SEAL)

Dated April 12, 1962
Price Waterhouse & Co.,
Suite 702-716,
1710 H Street, N. W.,
Washington 6, D. C.

Dear Sirs:

Reference is made to the reviews which your firm has conducted annually since 1958 covering the procedures employed by the Board’s field examining staff in examinations of Federal Reserve Banks. As you know, partly as a result of recommendations and suggestions growing out of your surveys, the examiners have adopted a change in their procedures to give more emphasis to the operational review aspect of examinations and to the substitution of testing techniques, where possible, in lieu of detailed verifications and proofs. Although considerable progress has been made in revising the examination procedures commensurate with this approach, it has not thus far been possible to extend the modifications to all of the operating functions normally found in a Reserve Bank.

In view of this situation, the Board, when considering your engagement for the current year, felt that it would be particularly advantageous if you would direct your attention principally to advising and consulting with the examining staff to assist it in carrying forward to a conclusion the transition in procedural approach. So that you may receive a better understanding of the nature and scope of the services contemplated, the Board has requested Mr. Frederic Solomon, Director, Division of Examinations, to arrange a meeting with your representatives at which the matter may be discussed and mutually satisfactory arrangements agreed upon.

Very truly yours,

Merritt Sherman,
Secretary.
It is requested that your firm undertake, as promptly after January 1, 1963, as is convenient, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1962.

As was explained to you by Governor Shepardson, no restrictions have been or will be placed by the Board upon your firm as to the scope of the audit or the manner in which it is to be conducted, and you will make the audit as extensive and in such manner as appears to you to be desirable in accordance with generally accepted auditing standards. Compensation will be on the basis of the fees customarily charged by your firm for audit work of this type.

For your information, there is enclosed a copy of a letter that is being addressed today to Price Waterhouse & Co., which has completed an audit of the Board’s books for calendar year 1961, and with which firm it is assumed that you will wish to consult. Members of the Board and its staff will also stand ready to consult with representatives of your firm regarding this work whenever that seems desirable.

Sincerely yours,

Wm. McC. Martin, Jr.

cc: Price Waterhouse & Co.
Price Waterhouse & Co.,
1710 H Street, N. W.,
Washington 6, D. C.

Gentlemen:

Your company has, upon request of the Board of Governors, audited the books and accounts of the Board for each of the past several years. The latest of these audits was for calendar year 1961 for which your certificate was addressed to the Board under date of January 29, 1962.

When the Board adopted the practice of employing a firm of public accountants to audit its books, it did so with the understanding that there would be rotation at approximately three-year intervals of the firms employed for that purpose. In keeping with that approach, it has requested the firm of Haskins & Sells to undertake an audit of the Board’s books and accounts for calendar year 1962. A copy of the letter being addressed today to Haskins & Sells is enclosed, and it will be appreciated if you will afford representatives of that firm an opportunity for consultation regarding such matters as seem appropriate in connection with their employment for auditing the Board’s books covering the year 1962.

The Board has appreciated the work performed by Price Waterhouse & Co. in connection with the audits of its books and accounts. A separate letter is being addressed to your company regarding the assistance provided during the current year in reviewing the procedures employed by the Board’s examiners in examining the Federal Reserve Banks.

Sincerely yours,

[Signature]

cc: Haskins & Sells

nm. McC. Martin, Jr.
Experience in the administration of the Bank Holding Company Act of 1956 has convinced the Board of Governors that the public interest would be promoted by amendments of that Act in a number of respects. Some of the needed changes would make the statute more stringent and others would relax certain of its provisions. In addition, certain amendments seem warranted in order to clarify the statute and to eliminate ambiguities.

In its Report to the Congress dated May 7, 1958 (also published in the Federal Reserve Bulletin of July 1958, beginning at page 781), the Board enumerated 25 matters as to which specific amendments of the Act and related legislation were recommended. The Board continues to believe that the laws would be improved by the enactment of all of these amendments, with the exception of one that has become unnecessary because of the enactment of other legislation in 1960.

However, the recommendations contained in the 1958 Report vary in importance. Some would only delete unnecessary provisions, or make the meaning of the statute clearer in some respects, or deal with matters that, although substantive, actually have not given rise to serious problems. Others, however, relate to (1) significant shortcomings of the Act that result in a failure fully to achieve the underlying legislative objectives or (2) requirements that impose unnecessary administrative burdens or unwarranted restrictions upon legitimate operations of the American banking system.

The Board continues to recommend enactment of the draft bill (Exhibit A to the 1958 Report) that incorporates all of the recommendations for changes included in that Report. It is recognized, however, that a less inclusive bill may have a greater likelihood of enactment. For this reason, the Board is submitting to your Committee, and to the House Committee on Banking and Currency, the enclosed draft bill relating only to relatively important matters, with the recommendation that such a bill be introduced and enacted as promptly as the legislative situation will permit.
The draft bill consists of six sections. The first four would broaden the definition of "bank holding company" and would eliminate certain unwarranted exclusions from that definition and from the definition of "company". The remaining two sections would repeal prohibitions of specified types of transactions by banks in holding company systems and would repeal provisions of the Banking Acts of 1933 and 1935 with respect to "holding company affiliates".

The principal changes that would be effected by each section of the bill are briefly described in the following paragraphs. More complete explanations were included in the Board's 1958 Report, referred to above.

Section 1. The definition of "bank holding company" in section 2(a) of the Act covers only situations involving two or more banks. In the Board's judgment, this definition is not adequate to control the potential evils at which the Act was aimed, in that it fails to cover one-bank situations. Accordingly, the Board recommends that references in section 2(a) to "two or more banks" be replaced by "any bank", so that a corporation would become a bank holding company by acquiring 25 per cent or more of the stock of any bank. 1958 Report, item 1.

The controls prescribed by the Act ordinarily do not reach situations in which employee-benefit trusts control banks through stock ownership. Through this device a bank (or other corporation) might create the equivalent of a holding company system, free from the scrutiny and controls prescribed by the Act, by having its employees' pension trust or profit-sharing trust purchase the stock of other banks. The draft bill would bring such arrangements within the scope of the Act. 1958 Report, item 3.

Section 2. The Act provides an exemption from the definition of "bank holding company", and therefore from the restrictions and requirements of the Act, that is based on registration of a company under the Investment Company Act of 1940. In the Board's judgment, this exemption lacks a logical basis and should be repealed in order to eliminate an unwarranted exclusion of a particular organization from the limitations and restrictions applicable to bank holding companies generally. 1958 Report, item 7.

Section 3. By specific exemption, the Act does not apply to a bank holding company "if at least 80 per centum of its total assets are composed of holdings in the field of agriculture". Like the registered-investment-company exemption, this exemption lacks any logical basis and should be repealed. 1958 Report, item 8.
Section 4. The Act does not apply to holding companies that are "operated exclusively for religious, charitable, or educational purposes". However, the principal dangers aimed at by the Act (unregulated expansion of holding company ownership of banks; ownership of banking and nonbanking interests by the same organization) are not obviated by the fact that a holding company is operated for religious, charitable, or educational purposes. Accordingly, this exemption should be repealed. 1958 Report, item 9.

Section 5. Section 6 of the Act prohibits intrasystem investments and extensions of credit by banks in holding company systems. This prohibition has impeded certain kinds of legitimate banking transactions, and in the Board's judgment it is unduly restrictive and would be unnecessary if other provisions of Federal banking law were appropriately amended, as provided in the draft bill. 1958 Report, item 23.

Section 6. The Banking Act of 1933 contained provisions with respect to "holding company affiliates", which term is defined to include companies owning more than 50 per cent of the stock of one or more member banks. On the basis of experience in the administration of the Bank Holding Company Act, the Board has concluded that these provisions of the Banking Act of 1933 are no longer sufficiently useful to justify their retention. Their elimination would remove the confusion that results from the existence of two sets of laws that relate to the same general subject but are based on different definitions of what constitutes a holding company. 1958 Report, item 25.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure
A B I L L

To amend the Bank Holding Company Act of 1956, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. (a) The first sentence of subsection (a) of section 2 of the Bank Holding Company Act of 1956 (70 Stat. 133; 12 U.S.C. 1841) is amended by striking the words "each of two or more banks" wherever they occur and substituting therefor the words "any bank", by striking the word "a" after the word "or", by inserting the words "or controlled directly or indirectly" after the word "held" in clause (3), and by adding a new clause (4), so that said sentence will read as follows:

"Bank holding company' means any company (1) which directly or indirectly owns, controls, or holds with power to vote 25 per centum or more of the voting shares of any bank or of a company which is or becomes a bank holding company by virtue of this Act, or (2) which controls in any manner the election of a majority of the directors of any bank, or (3) for the benefit of whose shareholders or members 25 per centum or more of the voting shares of any bank or bank holding company is held or controlled directly or indirectly by trustees, or (4) for the benefit of whose employees (whether exclusively or not) 25 per centum or more of the voting shares of any bank or bank holding company is held
or controlled directly or indirectly by trustees under an employee-benefit plan; and for the purposes of this Act, any successor to any such company shall be deemed to be a bank holding company from the date as of which such predecessor company became a bank holding company."

(b) Clause (1) of the first sentence of subsection (a) of section 3 of the Bank Holding Company Act of 1956 (12 U.S.C. 1842) is amended by inserting the words "bank becoming a bank holding company, or any other" after the words "in a" and by striking the words "under section 2(a) of this Act" and substituting therefor the words "with respect to more than one subsidiary bank", so that said sentence will read as follows:

"It shall be unlawful except with the prior approval of the Board (1) for any action to be taken which results in a bank becoming a bank holding company, or any other company becoming a bank holding company with respect to more than one subsidiary bank; (2) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank; (3) for any bank holding company or subsidiary thereof, other than a bank, to acquire all or substantially all of the assets of a bank; or (4) for any bank holding company to merge or consolidate with any other bank holding company."
(c) Subsection (d) of section 2 of the Act is amended by changing the period at the end thereof to a semicolon and adding thereafter the following language: "or (4) any bank 25 per centum or more of whose voting shares are held or controlled directly or indirectly by trustees under an employee-benefit plan for the benefit of the employees (whether exclusively or not) of such bank holding company."

SEC. 2. The second sentence of subsection (a) of section 2 of the Act is amended by striking the words "(B) no company shall be a bank holding company which is registered under the Investment Company Act of 1940, and was so registered prior to May 15, 1955 (or which is affiliated with any such company in such manner as to constitute an affiliated company within the meaning of such Act), unless such company (or such affiliated company), as the case may be, directly owns 25 per centum or more of the voting shares of each of two or more banks,".

SEC. 3. (a) The second sentence of subsection (a) of section 2 of the Act is amended by striking the words ", and (E) no company shall be a bank holding company if at least 80 per centum of its total assets are composed of holdings in the field of agriculture".

(b) Subsection (g) of section 2 of the Act is repealed.

SEC. 4. Subsection (b) of section 2 of the Act is amended by striking the words "or (2) any corporation or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, or educational purposes, no part of the net earnings of which inures to the benefit
of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation,"

SEC. 5. (a) Section 6 of the Bank Holding Company Act of 1956 is hereby repealed.

(b) Section 23A of the Federal Reserve Act, as amended (12 U.S.C. 371c), is amended by adding at the end thereof the following new paragraphs:

"For the purposes of this section, (1) the terms 'extension of credit' and 'extensions of credit' shall be deemed to include (A) any purchase of securities, other assets or obligations under repurchase agreement, and (B) the discount of promissory notes, bills of exchange, conditional sales contracts, or similar paper, whether with or without recourse, except that the acquisition of such paper by a member bank from another bank, without recourse, shall not be deemed to be a 'discount' by such member bank for such other bank; and (2) noninterest-bearing deposits to the credit of a bank shall not be deemed to be a loan or advance or extension of credit to the bank of deposit, nor shall the giving of immediate credit to a bank upon uncollected items received in the ordinary course of business be deemed to be a loan or extension of credit to the depositing bank.

"For the purposes of this section, the term 'affiliate' shall include, with respect to any member bank, any bank holding company
of which such member bank is a subsidiary within the meaning of
the Bank Holding Company Act of 1956, as amended, and any other
subsidiary of such company.

"The provisions of this section shall not apply to (1) stock,
bonds, debentures or other obligations of any company of the
kinds described in section 4(c)(1) of the Bank Holding Company
Act of 1956, as amended; (2) stock, bonds, debentures or other
obligations accepted as security for debts previously contracted,
provided that such collateral shall not be held for a period of
over two years; or (3) shares which are of the kinds and amounts
eligible for investment by national banks under the provisions
of section 5136 of the Revised Statutes."

(c) Section 18 of the Federal Deposit Insurance Act, as
amended (12 U.S.C. 1828), is further amended by adding at the end thereof
the following new subsection:

"(1) The provisions of section 23A of the Federal Reserve Act,
as amended, relating to loans and other dealings between member
banks and their affiliates, shall be applicable to every non-
member insured bank in the same manner and to the same extent as
if such nonmember insured bank were a member bank; and for this
purpose any company which would be an affiliate of a nonmember
insured bank, within the meaning of section 2 of the Banking Act
of 1933, as amended, and for the purposes of section 23A of the
Federal Reserve Act, if such bank were a member bank shall be deemed to be an affiliate of such nonmember insured bank."

SEC. 6. (a) Subsection (b) of section 2 of the Banking Act of 1933, as amended (12 U.S.C. 221a), is further amended by adding at the end thereof a new paragraph to read as follows:

"(4) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank or more than 50 per centum of the number of shares voted for the election of directors of a member bank at the preceding election, or controls in any manner the election of a majority of the directors of a member bank, or for the benefit of whose shareholders or members all or substantially all the capital stock of a member bank is held by trustees."

(b) Subsection (c) of section 2 of the Banking Act of 1933, as amended (12 U.S.C. 221a), is repealed.

(c) Section 5144 of the Revised Statutes, as amended (12 U.S.C. 61), is amended to read as follows:

"SEC. 5144. In all elections of directors, each shareholder shall have the right to vote the number of shares owned by him for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of his shares shall equal, or to distribute them on the same principle among as many
candidates as he shall think fit; and in deciding all other
questions at meetings of shareholders, each shareholder shall be
entitled to one vote on each share of stock held by him; except
that (1) this shall not be construed as limiting the voting
rights of holders of preferred stock under the terms and provisions
of articles of association, or amendments thereto, adopted pursuant
to the provisions of section 302(a) of the Emergency Banking and
Bank Conservation Act, approved March 9, 1933, as amended; (2) in
the election of directors, shares of its own stock held by a
national bank as sole trustee, whether registered in its own name
as such trustee or in the name of its nominee, shall not be voted
by the registered owner unless under the terms of the trust the
manner in which such shares shall be voted may be determined by a
donor or beneficiary of the trust and unless such donor or benefi-
ciary of the trust and unless such donor or beneficiary actually
directs how such shares shall be voted; and (3) shares of its own
stock held by a national bank and one or more persons as trustees
may be voted by such other person or persons, as trustees, in the
same manner as if he or they were the sole trustee. Shareholders
may vote by proxies duly authorized in writing; but no officer,
clerk, teller, or bookkeeper of such bank shall act as proxy; and
no shareholder whose liability is past due and unpaid shall be
allowed to vote. Whenever shares of stock cannot be voted by reason
of being held by the bank as sole trustee, such shares shall be
excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares."

(d) The second paragraph of section 5211 of the Revised Statutes (12 U.S.C. 161) is amended by striking out the second sentence of such paragraph.

(e) The last sentence of the sixteenth paragraph of section 4 of the Federal Reserve Act, as amended (12 U.S.C. 304), is amended by striking out all of the language therein which follows the colon and by inserting in lieu thereof the following: "Provided, That whenever any member banks within the same Federal Reserve district are subsidiaries of the same bank holding company within the meaning of the Bank Holding Company Act of 1956, participation in any such nomination or election by such member banks, including such bank holding company if it is also a member bank, shall be confined to one of such banks, which may be designated for the purpose by such holding company."

(f) The nineteenth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 334) is amended by striking out the last sentence of such paragraph.

(g) The twenty-second paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 337) is repealed.

(h) The third paragraph of section 23A of the Federal Reserve Act (12 U.S.C. 371c) is amended by striking out that part of the first sentence that reads "For the purpose of this section, the term 'affiliate'
shall include holding company affiliates as well as other affiliates, and by changing the word "the" following such language to read "The".

(i) Paragraph (4) of section 3(c) of the Investment Company Act of 1940 (15 U.S.C. 80a-3) is repealed.

(j) Paragraph (11) of section 202(a) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-2) is amended by striking out the words "or any holding company affiliate, as defined in the Banking Act of 1933" and substituting therefor the words "or any bank holding company as defined in the Bank Holding Company Act of 1956."

(k) Section 601 of the Internal Revenue Code of 1954 (26 U.S.C. 601) is hereby repealed.