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Minutes for July 3, 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 M

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, July 3, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Benner, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Hill, Attorney, Legal Division

Call for condition reports. The Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Chairman of the Federal Deposit Insurance Corporation having selected the close of business June 30, 1962, as the date for the second call for reports of condition to be made by insured banks within the calendar year 1962, a telegram was sent to the Presidents of all Federal Reserve Banks on July 2, 1962, requesting that a call be issued on July 6, 1962, for reports of condition as of the aforementioned date from State member banks on forms transmitted with the Board's letter of June 7, 1962.

The sending of the telegram was ratified by unanimous vote.

Circulated item. The following item, which had been circulated to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

> Letter to Princeton Bank and Trust Company, Princeton, New Jersey, approving the establishment of a branch at 12-14 Nassau Street, Princeton Borough, the former site of the bank's principal office.

Report on competitive factors (Perth Amboy-Carteret, New Jersey). There had been distributed under date of June 28, 1962, a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank in Carteret, Carteret, New Jersey, into The Perth Amboy National Bank, Perth Amboy, New Jersey.

Governor Robertson suggested certain changes in the wording of the conclusion of the report, including the elimination of a statement to the effect that the effectuation of the proposed merger might intensify competition among larger banks operating in the general area to be served by the continuing institution.

Along the same line, Governor Mills commented that he was not sure that competition among the larger banks in the area would be increased by the creation of a somewhat larger bank through the merger. He suspected that the larger banks were already competing as effectively as they could.

After further discussion, the report was approved unanimously for transmittal to the Comptroller of the Currency in a form in which the conclusion read as follows:

> Combining The Perth Amboy National Bank, Perth Amboy, New Jersey, and First National Bank in Carteret, Carteret, New Jersey, would eliminate the small amount of competition between these two banks, and probably have little effect on the competitive position of the smaller banks.

Referring to the report on the proposed merger of the two New Jersey banks, Governor Mills commented that a contention was frequently made that where two banks consolidated the resulting bank, being larger and having greater resources than its two components, was in a better position to compete with other banks of equal or larger size. In considering merger applications he believed this aspect should be investigated very discernedly.

Governor Mitchell expressed the view that the ability of a bank to compete effectively was not necessarily a matter of size. A small bank might be just as competitive as a larger bank. The will to compete was, he thought, a more significant factor than size.

Governor Mills observed that there was of course the question of the personal equation, that is, whether management was willing and able to compete. One of the reasons for a bank merger might be an effort to place control of a larger volume of resources under a single management. Enhanced earning power resulting from a bank merger could place the resulting bank in a position to offer a larger range of services at a lower cost, thereby enabling it to compete more effectively in a community.

Governor Balderston said he believed that there was a certain scale of operation at which a bank could carry on its business most effectively, and he thought it would be helpful to have some data on the subject. In this connection, he mentioned that a small bank might have trouble in attracting good officers, but if that bank were to merge with a larger bank the resulting bank would be able to pay better salaries and would doubtless be more aggressive.

Governor Mitchell suggested that much helpful information could be gleaned from a study of data on bank operating ratios. He believed that, in terms of earnings per share of capital, the data would indicate that smaller banks were more profitable than larger banks.

Report on competitive factors (Souderton-Schwenksville, Pennsylvania). There had been distributed under date of June 29, 1962, a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The National Bank and Trust Company of Schwenksville, Schwenksville, Pennsylvania, into Union National Bank and Trust Company of Souderton, Souderton, Pennsylvania.

There being no objection, the report was approved unanimously for transmittal to the Comptroller. The conclusion of the report read as follows:

> Consummation of the proposed merger would eliminate the minor degree of competition between the two banks desiring to merge. While the increased size of Resulting Bank might make it a more effective competitor with area offices of eight banks which are presently larger than Charter Bank and might give it a slight competitive advantage over two smaller banks in the immediate area, the over-all competitive effect of the merger does not appear significant.

Application of Dauphin Deposit Trust Company. There had been distributed a memorandum from the Division of Examinations dated June 21, 1962, recommending favorably on an application by Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, to merge with The First National Bank of Mount Holly Springs, Mount Holly Springs, Pennsylvania, and, incident thereto, to operate a branch at the present location of the latter bank.

Mr. Leavitt commented on the application, his remarks being based largely on the memorandum that had been distributed. In concluding, he noted that the Division of Examinations was of the view that this was a close case, but it was believed that the benefits of the merger in the Mount Holly Springs area would be sufficient to offset the moderate amount of competition that would be eliminated. Accordingly, approval of the application was recommended.

Governor Mills commented that it was not clear to him what competition would be eliminated since there would be a substitution of one bank for another.

Mr. Leavitt responded that Dauphin Deposit had a branch in Carlisle, six miles from Mount Holly Springs. In the area between the two towns there was some overlap, and it was in that area that a certain amount of competition would be eliminated if the merger were effected.

Governor Mills inquired as to the alternative sources of banking service in the area, and Mr. Leavitt replied that there were in the area a branch of Cumberland National Bank and Trust Company of New Cumberland, two branches of Harrisburg National Bank and Trust Company, and Farmers Trust Company (an independent bank in Carlisle).

The members of the Board then presented their views, beginning with Governor Mills, who said that he would approve the application. He considered this to be a close decision, but he thought the broader geographical area should be taken into consideration. He believed it would not be appropriate to focus attention almost entirely on the Mount Holly Springs area, but rather that the entire Harrisburg-York trade area should be taken into account. The merger proposal seemed to be part of a trend, and presumably an advantageous trend, toward providing the complete area with better rounded banking services that could be provided by the larger institutions that had been grouping together through mergers. He did not believe that competition in the area would be greatly affected by the proposed merger. Where all factors were neutral or to a moderate degree on the favorable side, he thought the Board should not interpose an adverse decision.

Governor Robertson said that he also considered this to be a close case. Here shareholders wanted to get out of First National and this would permit them to do so. No matter where the line of primary and secondary service areas was drawn, a certain amount of competition was being eliminated. This being so, he considered it necessary to look for favorable factors to offset the adverse competitive effects. Aside from the fact that the resulting bank would be in a position to offer trust services not now available in the Mount Holly area, he failed to see any favorable offsetting factors. Other banking needs of the community were now being met. So far as the argument was concerned that the resulting bank would be in a position to provide larger loans, it was a usual procedure for banks to participate some loans, and the Mount Holly bank had participated only three during the past year. In this case a large Harrisburg bank, which had already stretched out, was seeking to stretch further. If the merger were effected, the bank would have about 28 per cent of the deposits of individuals, partnerships, and corporations and

19 per cent of the banking offices in the Dauphin-Cumberland Counties area, which he thought was stretching in the wrong direction. He mentioned that people in the Mount Holly area might be deprived of higher rates of interest if the merger were consummated since Dauphin Deposit was currently paying a lower rate on savings deposits than the Mount Holly bank. Accordingly, Governor Robertson concluded that there seemed to be nothing to support approval and everything to support denial. He would therefore vote to disapprove the application.

Governor Shepardson expressed the view that this was a difficult case. It did not appear that the proposed merger would add services to the community that would argue strongly in favor of the applicant. On the other hand, he had some doubts in the case. Here was a local bank which, finding itself in an increasingly competitive situation, wanted to sell out when it could. He was not sure to what extent the Board should compel the bank to stay in business. His present inclination would be to approve the application, but he realized that there was no strong argument for approval other than a desire of First National's stockholders to let the larger bank take over. However, in the long run he thought the merger would be advantageous because he believed the smaller bank, if it remained in business, would be continually more disadvantaged in its efforts to serve the community.

Governor Mitchell expressed the view that consummation of the merger would clearly lessen competition. In fact, he suspected that an effort was being made to suppress competition in the area. If some bank other than Dauphin Deposit had proposed to take over the Mount Holly bank, the situation might have been somewhat different. Under the present proposal, whatever competition existed between Dauphin Deposit and First National would be eliminated, and he believed that there was considerable competition. The area was built up most of the way between the towns involved. Apparently First National was a good local bank; its earnings were satisfactory, and it was well managed. While he thought the bank was too small in many respects and that therefore there was some reason for suggesting a merger, in this particular instance he would be disposed to disapprove the application on the grounds that it would eliminate too much competition.

Governor Balderston indicated that he would vote to disapprove the application on the same basis.

In further discussion during the meeting a procedural question was raised as to whether the Board would wish to have an oral presentation in connection with the Dauphin Deposit application.

At that time Governor Mills inquired whether the Pennsylvania Secretary of Banking had approved the application, and Mr. Leavitt replied that the Secretary had indicated that he would approve the application if it were approved by the Board.

With respect to an oral presentation, Governor Mills commented that he had a distaste for oral hearings and he would not favor one on this application. It was his view that the Board should at this time take clear and decisive action.

Mr. Hackley mentioned that in this instance the positions taken by members of the Board present indicated a 3 to 2 decision denying the application. Accordingly, if the case were reconsidered at a later date when all members of the Board were present, there was the possibility that today's decision might be reversed. It was not essential that an oral presentation be held, but it had been thought that the question should be raised in the light of the circumstances.

Mr. Hackley commented further that, if the Board should decide that it would be desirable to have an oral presentation, he would assume that members of the Board present at the meeting today would not wish to have recorded their votes on the application. It was his view that those votes would not be considered as final until the end of the meeting. Accordingly, if it so desired, the Board could expunge the votes from the record.

In discussion it was noted that in February 1961 the Board by a 4 to 2 decision had denied an application of Dauphin Deposit to merge with Camp Curtin Trust Company. Following an oral presentation, in July 1961 the Board reconsidered the application and reversed its earlier decision. The same bank was involved in this case and Mr. Leavitt said he believed it was almost certain that a request for reconsideration would be received if the instant application were denied. In the circumstances, there was the matter of consistency in handling two applications from the same bank.

Governor Mills indicated that, since the same bank was involved, this might alter his thinking so far as an oral presentation was concerned.

Governor Robertson expressed doubt whether any purpose would be served by arranging for an oral presentation at this time.

Governor Shepardson said that he also could not see what would be accomplished by an oral presentation. He thought that probably the record as it now stood might encourage the applicant to apply for reconsideration. As he had indicated earlier in the discussion, he considered that this was a close case. The facts did not indicate sufficient added services to the community to justify approval, although it did appear that in the long run the larger bank would be in a position to render better service. Since his original position had been one of extreme doubt and since he now believed that the Board's position would be strengthened if the vote were more decisive, he would change his position and vote for disapproval. This would result in a vote of 4 to 1 for disapproval, thereby showing a majority of the full Board voting for disapproval. This, he believed, would place the Board in a stronger position with respect to a possible request for reconsideration. He added that he thought there was far less basis for approval of this application than the earlier one to merge with the Camp Curtin bank.

Governor Mitchell said he believed the Board's decision today should be announced. After that, if the bank should ask for an oral presentation, he would favor having it.

In that connection, Mr. Hackley pointed out that under the Board's current Rules of Procedure, it was the practice not to grant a request for reconsideration unless an applicant clearly presented relevant facts that had not been presented to the Board previously. This provision was intended to discourage requests for reconsideration.

Governor Shepardson commented that in this case he did not believe there was likely to be any new information.

Governor Robertson reiterated the view that he would not favor having an oral presentation prior to announcing the Board's decision, and there was general agreement with this view.

Accordingly, the application was denied, Governor Mills dissenting for the reasons he had stated. It was understood that the Legal Division would draft for the Board's consideration an order and statements reflecting the action taken.

Messrs. McClintock and Hill then withdrew from the meeting.

Report on study by Price Waterhouse & Co. There had been distributed with a covering memorandum from the Division of Examinations dated June 27, 1962, a report from Price Waterhouse & Co. dated April 20, 1962, regarding a study of the techniques and procedures used by the Board's Division of Examinations in making examinations of Federal Reserve Banks. The study had been conducted during an examination of the Federal Reserve Bank of Atlanta in November and December 1961.

Earlier reports of Price Waterhouse had stressed the need for and the merits of a revision in the general approach to the examinations program. The essence of their suggestions had been that "the representatives of the Division of Examinations should become more intimately familiar with the built-in systems of checks and balances (internal controls) of the System's Banks, and that their work on examinations should be designed, and conducted, in a way that would enable them to develop assurances that the day-to-day operations of the Banks are so organized to preclude, or disclose quickly, any significant impairment in the required essential integrity of the System's Banks."

As indicated in the memorandum, the field staff had been revising its procedures to give increased emphasis to operational reviews, in which efforts were being directed to ascertaining that the Reserve Banks' procedures had built into them adequate internal controls and that the performance of the procedures by Bank personnel was of a quality to make the procedures effective. When satisfactory assurances had been thus obtained, it had been possible to substitute limited test verifications of the asset accounts in lieu of detailed verifications. When the Price Waterhouse review was made in 1961, these revisions were in a transitional stage.

In commenting on the report, Mr. Smith stated that there appeared to be no new major suggestions and the Division of Examinations had no quarrel with the points mentioned. Substantial changes had been made in the examining procedures, based to a large extent on earlier suggestions of Price Waterhouse, and it was expected that other changes would be completed before the end of the current year. He noted that Price Waterhouse had recently been engaged to perform certain advisory services that were designed to expedite further the complete change-over to the revised examining procedures. It was thought that this type of service would assist further in the transition.

Mr. Smith then referred to a suggestion in the Price Waterhouse report that reports of examination to the Board include an account of the miscellaneous criticisms and suggestions offered to the Reserve Banks by examiners. Mr. Smith pointed out that during the course of an examination there were usually brought to light miscellaneous minor errors, suggestions for improvement, etc., some of which were not particularly significant. Having in mind that the inclusion of such items in the formal examination report might exaggerate their significance beyond the intention of the examiners, it had been the practice of the Chief Federal Reserve Examiner to make a judgment as to whether these items were of sufficient merit to warrant comment in the report. The Chief Examiner followed the practice of discussing orally with the management of Reserve Banks those items that he did not consider sufficiently significant to include in formal examination reports. In most instances this procedure had been effective. Mr. Smith pointed out, however, that in the future all items of this type would be included in reports unless the Reserve Bank's explanation was entirely satisfactory to the Chief Examiner.

Governor Mills stated that he was impressed by the recent Price Waterhouse report, which contained an intimation that points raised before had not been heeded by the examiners. He thought all the points were well taken, especially the one relating to an inadequate custody procedure at the Atlanta Reserve Bank, where problems had arisen in the past with reference to the functions of the Fiscal Agency Department. In connection with determining what information should be excluded from or included in examination reports, he would lean in the direction of disclosing criticism unless it was of a petty nature. Otherwise, there was the impression that information was being withheld from the Board, which had a responsibility in the area. Since the Reserve Bank examination reports had first been released to the House Banking and Currency Committee at the request of

Congressman Patman in 1954, it seemed to him that there had been an absence of criticism of Reserve Bank expenditures in the reports. It was difficult for him to believe that the Reserve Banks were not making any expenditures of a questionable nature that should be referred to in the reports. It was his view that there should be a broad disclosure of matters relating to expenditures, especially those in the area of public relations.

Mr. Smith said that he did not believe that examiners were failing to report any expenses that in their judgment merited comment. However, he thought that the Reserve Banks had been voluntarily screening and tightening up their expenditures, thereby tending to eliminate those that might be considered questionable. This, he believed, was the reason for less criticism of Reserve Bank expenditures in recent examination reports.

Governor Robertson noted that one of the purposes of examination reports was to keep the Board informed as to what was going on; he hoped that the reports would include any expenditures that should be criticized. It was his feeling that Price Waterhouse had done an admirable job in calling certain defects to the Board's attention, and he also thought the staff was to be complimented for its work in putting into effect the recommendations of that firm.

Governor Balderston then referred to the view in the Price Waterhouse report that the Board's examination program did not provide adequately for coverage of the processing of Federal taxes received by Reserve Banks as fiscal agents for the Treasury Department. He wondered if the practice noted at the Atlanta Reserve Bank was System-wide.

Mr. Smith replied that the rather limited examination attention given this function resulted from the fact that (a) the procedure prescribed by the Treasury Department for the processing of tax receipts made the operation practically self-auditing and (b) the nature of the function did not lend itself readily to the examination techniques and procedures formerly in effect. Mr. Smith noted, however, that as a result of the observations made by Price Waterhouse during the 1961 field study, the operational review of the Fiscal Agency Departments of Reserve Banks in the current year had included a review of the operations and controls in the Federal tax unit.

Governor Shepardson said it seemed to him that the report was a good one. He wondered why the examiners had not referred in their report to the imperfections in the safekeeping procedures at the Atlanta Reserve Bank, which were quite apparent. He recognized that a fine-line decision was involved in determining what should be included in examination reports. It appeared, however, that there was a need for some tightening up in this area, having in mind, of course, the desirability of not irritating local management unduly.

Governor Mitchell expressed concern over the repeated references in the Price Waterhouse report to previous recommendations, which apparently had not yet been carried out by the examining staff. The report contained statements to the effect that, in spite of earlier recommendations, most of the examiners' work was still being carried on by traditional methods and the need for sharper techniques of internal control continued. If the techniques were there, he thought the task of examination was largely performed. According to the report, the examining staff was using an obsolete examinations technique. It appeared to him that the Board had either received poor advice or the staff was taking it too lightly and not working hard enough or imaginatively enough in the direction suggested. He believed that something should be done to correct this situation.

Mr. Smith stated that the field staff was making real progress in putting into effect the changes in techniques proposed by Price Waterhouse. The transition required time, but it was hoped to complete the change-over this year.

Governor Shepardson recalled that the first field study by Price Waterhouse had been made in 1958 and recommendations resulting from that survey were considered in 1959. It was not until 1960 that the Board decided to adopt a majority of the recommendations, some of which had been carried forward on a piecemeal basis. As Mr. Smith had indicated, it was hoped to complete the transition period sometime in 1962.

There followed further discussion of the various points covered in the Price Waterhouse report, during which there was stressed the need to put into effect as promptly as possible certain examining techniques and procedures recommended by Price Waterhouse.

At the conclusion of the discussion Mr. Smith withdrew from the meeting.

United Security Account Plan. A memorandum from the Legal Division dated June 29, 1962, had been distributed with reference to the possible abandonment of the United Security Account Plan of Citizens Bank & Trust Company, Park Ridge, Illinois.

In a letter of May 3, 1962, to the member bank the Board had stated that it expected the bank to comply with cited provisions of Regulation Q, Payment of Interest on Deposits. The letter indicated that the United Security Account Plan of the bank was objectionable and was prohibited by Regulation Q because it constituted "a device to provide for the payment of interest on an account that is, in effect, subject to withdrawal by means of checks whenever the customer deems it expedient to do so." In a response to the Chicago Reserve Bank, dated June 5, 1962, Citizens Bank intimated that a "preliminary judgment" of the economic soundness of the plan could be reached by the bank in August.

On June 12, 1962, Mr. Hodge, General Counsel of the Chicago Reserve Bank, telephoned Mr. Hexter and recommended that the bank be informed by the Board (1) that the nature and status of the plan (in its several forms) had been adequately explored in the course of conferences, examination, and correspondence, and (2) that unless the plan was terminated by a specified date, the Board would commence a proceeding with respect to forfeiture of Citizens Bank's Federal Reserve membership. On June 22, Mr. Hodge advised Mr. Hexter that there had been certain further developments that would suggest that the plan would probably be terminated if the bank was advised along the lines mentioned on June 12.

Attached to the memorandum was a draft of letter to Citizens Bank & Trust Company that would order the bank to discontinue operation of the plan not later than August 27, 1962, and would state that unless this was done the Board would commence a forfeiture of membership proceeding.

Mr. Hexter commented that the proposed letter involved the issuance of an ultimatum and, accordingly, the Board might wish to postpone its consideration until all members of the Board were present. He added that Mr. Hodge seemed to feel strongly that it would be desirable for the Board to communicate at an early date with the bank. From a legal standpoint, Mr. Hexter did not believe that the hazards of sending the proposed letter were great. In his judgment, this procedure seemed to afford an opportunity for winding up the matter without delay or a legal proceeding.

Governor Balderston indicated that it might be preferable for the letter to be considered when there was a full Board.

Governor Robertson said he had no objection to holding over discussion of the letter until next week, although he did not think any harm could result from sending such a letter.

Governor Mitchell stated that, if the bank was studying the plan as it had indicated, he would be inclined not to take action until that study had been completed. In any event, he believed he had a preference for trying to deal with the bank by some other means than issuing an order.

There being no objection, it was agreed that the proposed letter to Citizens Bank would be discussed at a Board meeting next week, probably on July 9.

Messrs. Benner and Kiley then withdrew from the meeting.

Proposals for legislation. At Governor Balderston's request, Mr. Hackley reported regarding a telephone call he had received on July 2 from Mr. Knight, General Counsel of the Treasury. Mr. Knight had indicated that he had on his desk proposals for legislation that would transfer to the Comptroller of the Currency authority now vested in the Board of Governors with respect to (1) trust powers of national banks; (2) approval of foreign branches of national banks; (3) the chartering and regulation of certain corporations engaged in foreign banking or financing operations; and (4) approval of investments by national banks and State member banks in certain domestically chartered foreign banking corporations.

In response to Mr. Knight's request for his views on the proposals, Mr. Hackley had said there appeared to be no objection to the first one since the Board had on June 26, 1962, recommended favorably to the Bureau of the Budget on a draft bill that would transfer to the Comptroller of the Currency authority over trust powers of national banks. He also informed Mr. Knight that so far as he knew the Board had not had occasion to review the other three proposals. Mr. Knight had then stated that it would be helpful if he might have the Board's views on them.

At the request of the Board, Mr. Goodman then commented on the proposals relating to foreign banking and financial operations. During his remarks he observed that the chartering of foreign banking and financing corporations was a complex matter. He noted, also, that at the present time four national banks had 106 overseas branches, all of which were examined by the Office of the Comptroller of the Currency. While the Board had authority to examine foreign branches of national banks, it had not had occasion to do so. He observed that it would perhaps be simpler to transfer complete authority over foreign branches of national banks to the Comptroller of the Currency. He concluded by stating that, if the Board has superior qualifications in the international field, there might be some basis for it to continue determining whether all foreign branches of domestic banks should be established and whether Edge Act corporations should be chartered. Some other agency could, of course, take over this responsibility; the question seemed to be a matter of deciding in which agency the responsibility should be vested.

Governor Mills commented that it was difficult for him to see any reason why the Comptroller of the Currency should not have authority to authorize national banks to establish overseas branches. However, when authorization for chartering of Edge Act corporations was concerned, this was a matter of national interest affecting both State and national banks, and he believed it would be preferable for this authority to continue to be concentrated in the Board.

Governor Robertson then mentioned certain problems that might arise in foreign banking and financial operations if responsibility in the area were divided, as proposed, between the Comptroller of the Currency and the Board.

In commenting on the suggestions, Mr. Furth said he thought that authority for the establishment of foreign branches of both national and State member banks was closely interrelated with the authority for establishing foreign banking and financing corporations. A technical problem was involved, that is, whether a bank wished to establish a branch or a subsidiary. He did not believe there was much reason for having one type of organization approved by one agency and the other type by a different agency. It seemed only logical that both should be approved by the same agency, and he was not sure which agency that should be.

Mr. Furth went on to say that, from another point of view, it was his feeling that both foreign branches and foreign banking and investment corporations had little to do with matters of monetary policy and yet they consumed a large amount of time on the part of the Board's staff. From the standpoint of practicability, it might, therefore, be a good idea to shift responsibility in this area to the Comptroller of the Currency. In this connection, however, Edge Act corporations were very complicated organizations, and he believed that they were not clearly understood outside the Board. While another agency could train its staff in this field, there was a question as to whether it would be sensible to transfer the responsibility in the absence of very compelling reasons for doing so.

Governor Mills said that, unless there was a major change in the whole bank supervisory system, he believed that Edge Act corporations should remain a responsibility of the Board. He would not be worried about the possibility of banks weighing one agency against the other in deciding whether to apply for permission to establish a branch or a subsidiary.

During the course of the discussion, Mr. Hackley remarked that he did not feel competent to reach a conclusion as to where the authority for establishing foreign branches and Edge Act corporations should be. The transfer of these functions to the Comptroller of the Currency would, he thought, be in line with the idea of dividing monetary policy from regulatory policy.

Governor Mills inquired whether it might not be possible to obtain from Mr. Knight a resume of the exact proposals.

Governor Robertson stated that so far as advice to Mr. Knight was concerned, he thought Mr. Hackley might inform him that the proposals with respect to foreign branches and foreign banking and investment corporations were essentially complicated and a point of national interest was involved. Accordingly, careful consideration and discussion would be necessary before expressing any view regarding the suggested transfer of authority.

Governor Shepardson indicated that he also thought it was important to have complete information before taking a position. With reference to having a divided responsibility for supervising overseas branches of banks and Edge Act corporations, he believed that all of the supervision should be under one agency and no change in the present arrangement should be made unless there were good reasons for doing so.

Governor Mitchell said it seemed to him that the obvious answer at this time was that the Board would not be favorable to any of the transfers suggested except the one involving trust powers of national banks. There was no reason to believe that the Office of the Comptroller of the Currency could handle foreign branches and Edge Act corporations any more effectively than the Board. A fundamental reason for not transferring these functions was the fact that the Comptroller of the Currency did not have the staff that would be in a position to furnish advice on policy implications with respect to foreign branches and Edge Act corporations. He disagreed with the suggestion that monetary policies were not involved in this area. He was inclined to think that the balance of payments situation was going to require careful study of capital outflows, and monetary policy was enmeshed with capital outflows. He did not consider that this was just a matter of authorizing foreign branches and Edge Act corporations; the establishment of these institutions abroad could become an important factor in short- and long-term capital flows and therefore have an important bearing on monetary policies. It was his view that the Board was better equipped than any other agency to handle the substantive issues in this area. Accordingly, he thought that the Board could appropriately take the position that it did not think that the suggested changes were wise.

Governor Balderston said he found Governor Mitchell's observations very persuasive. With only four national banks having offices overseas, at first look he had thought that authority over foreign branches of national banks might be turned over to the Comptroller of the Currency. Thinking, however, of the balance of payments problem to which Governor Mitchell had referred, there would seem to be advantages in having all foreign branches and affiliates of banks controlled by one agency, and the Board seemed to be in the best position to handle that responsibility. Also, he observed that the Edge Act legislation was closely connected with matters involving foreign trade. These corporations and foreign branches of domestic banks had an effect on financial activities in the Western world and he did not believe responsibility for them should be divided. His complete distaste for a competitive race to lower standards, as well as all of the problems connected with foreign branches and Edge Act corporations, led him to think that the Board should oppose the proposed transfers of authority.

After further discussion, Mr. Hackley was authorized to advise Mr. Knight that the Board had discussed the proposals and, in the absence of compelling reasons, the general leaning would be against all of the transfers of authority except the one involving trust powers of national banks. Mr. Hackley was requested to indicate that meanwhile the Board would be interested in seeing any documents that might set forth reasons for the proposed changes.

Messrs. Shay and Furth then withdrew from the meeting.

Examination reports of national banks. With reference to arrangements for delivery of reports of examinations of national banks to Federal Reserve Banks, it was noted that the Board had received a copy of a letter addressed by the Comptroller of the Currency to regional chief national bank examiners dated June 27, 1962, in which each regional chief was requested to work out with various Reserve Banks mutually agreeable arrangements for delivery of reports and the billings therefor. Word had been received from a number of the Reserve Banks that satisfactory arrangements were being worked out with the regional chiefs.

The Secretary reported that on July 2, 1962, a wire had been sent to the Presidents of all Reserve Banks which mentioned that one Reserve Bank had reported to the Board the willingness of a regional chief national bank examiner to deliver to the head office of the Reserve Bank only those reports covering national banks located in that Federal Reserve district and to mail reports for national banks located in another Federal Reserve district to the Reserve Bank concerned and to bill accordingly. The telegram had indicated that the procedure tentatively made by this Reserve Bank and the regional chief seemed to be appropriate, but noted that this was a matter to be worked out on a mutually agreeable basis by individual Reserve Banks and regional chiefs concerned. The telegram had concluded by indicating that whatever arrangements might be agreed upon would seem to be acceptable.

A brief discussion followed, after which the meeting adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointments

Milo Peterson as Economist in the Division of Research and Statistics, with basic annual salary at the rate of $8,860, effective the date of entrance upon duty, with the understanding that Mr. Peterson would be reimbursed for his moving expenses from the Minneapolis area to a residence in the Washington area, including transportation and per diem while in travel status as well as transportation for his immediate family.

Judith Simonsen as Statistical Assistant in the Division of Research and Statistics, with basic annual salary at the rate of $5,005, effective the date of entrance upon duty.

Bernard A. Thomasson as Operator, Tabulating Equipment, in the Division of Administrative Services, with basic annual salary at the rate of $3,760, effective the date of entrance upon duty.

Transfers

Dorothy Lee Saunders, from the position of Secretary in the Division of Personnel Administration to the position of Secretary in the Office of the Secretary, with no change in basic annual salary at the rate of $4,840, effective the date of assuming her new duties.

George G. Noory, from the position of Analyst in the Division of Bank Operations to the position of Assistant Review Examiner in the Division of Examinations, with no change in basic annual salary at the rate of $6,435, effective July 16, 1962.

Secretary

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

Item No. 1
7/3/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 3, 1962

Board of Directors,
Princeton Bank and Trust Company,
Princeton, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Princeton Bank and Trust Company, Princeton, New Jersey, of a branch at 12-14 Nassau Street, Princeton Borough, New Jersey, the former site of the principal office. It is understood that banking operations are presently being conducted at this office and no new banking site is involved in this branch designation.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.