

Minutes for May 1, 1963

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

A series of horizontal lines corresponding to the names on the left. The lines for Chm. Martin, Gov. Mills, Gov. Robertson, Gov. Balderston, Gov. Shepardson, Gov. King, and Gov. Mitchell each have handwritten initials or signatures written on them. The initials for Chm. Martin are 'M'. The initials for Gov. Mills are 'M'. The initials for Gov. Robertson are 'R'. The initials for Gov. Balderston are 'C.B.'. The initials for Gov. Shepardson are 'S.S.'. The initials for Gov. King are 'K'. The initials for Gov. Mitchell are 'M'.

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, May 1, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Connell, Controller
 Mr. Benner, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. McClelland, Assistant to the Director, Division of Examinations

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Mellon National Bank and Trust Company, Pittsburgh, Pennsylvania, granting permission for the organization, under section 25(a) of the Federal Reserve Act, of a corporation to be known as "Mellon International Finance Corporation," Pittsburgh, Pennsylvania, for the purpose of engaging in international or foreign financial operations (other than banking); and transmitting a preliminary permit.	1

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Item No.

Letter to Congressman Fascell, Chairman of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, relating to preventive measures taken to cope with crimes directed against banks.

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Letter to Congressman Fascell, Chairman of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations, transmitting a report on operations of the Board in processing applications for bank mergers.

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Each of the two reports to Chairman Fascell was approved in a form incorporating minor changes suggested at this meeting in the interest of clarification.

Messrs. Benner, Leavitt, Young, and McClelland then withdrew from the meeting and Mr. Morgan, Editorial Specialist, Board Members' Offices, entered the room.

Arrangements in connection with convention of American Bankers Association. There had been circulated to the Board a memorandum from Mr. Fauver dated March 7, 1963, in which the question was raised of arranging a suitable exhibit in the Federal Reserve Building for those attending the convention of the American Bankers Association, to be held in Washington October 6-9, 1963.

At the Board's request, Mr. Fauver reviewed arrangements made in 1953, when the convention of the Association was last held in Washington, and outlined in general terms the type of Federal Reserve exhibit that might be put together if the Board so desired.

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The reaction on the part of the Board was favorable, and a number of possibilities for the arrangement of an exhibit and other features were suggested. There appeared to be general agreement with summary comments of Chairman Martin in which he expressed the view that bankers attending the convention should be invited to visit the Federal Reserve Building, that there should be an appropriate exhibit, including a suitable display of System publications, with sufficient quantities available for those who might be interested, and that tour arrangements should be available for those who would like to see the Board Room or other parts of the building. Projects should be avoided that would involve undue cost, however, as well as any features that might be construed as having a flavor of propaganda.

At the conclusion of the discussion, it was understood that the staff would proceed with the consideration of arrangements generally in accord with the views and suggestions at this meeting, with the Board to be kept advised of developments and the use of building facilities to be subject to approval by Governor Shepardson. It was noted that some of the features of an exhibit arranged in connection with the forthcoming convention might be appropriate for retention for the benefit of visitors to the Federal Reserve Building on a continuing basis.

Evaluation of Directors Day. Messrs. Fauver and Morgan reviewed reactions expressed by directors, Board members, and members of the Board's staff to the program held on March 20-21, 1963, for newly-appointed directors of the Federal Reserve Banks and branches.

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There followed a general evaluation of various facets of the program, and it was understood that the comments made would be borne in mind in the arrangement of similar programs in the future.

Mr. Morgan then withdrew from the meeting.

Supervision and examination of Federal Reserve Banks. Governor

Shepardson had distributed to the other members of the Board a memorandum dated April 25, 1963, in which he stated his understanding of the consensus of Board discussion at the meeting on March 25, 1963, regarding supervision and examination of the Federal Reserve Banks. This discussion had indicated the Board's desire for (1) accelerated activity on the part of the Division of Examinations looking toward modernization and increased efficiency in examination procedures, including the use of tested sampling procedures of verification in all areas of examination and increased attention to reviews of all internal audit procedures relating to Bank security and integrity; (2) immediate steps to improve the quality and competence of the examination staff; and (3) a more clear-cut delineation of the areas of responsibility and methods of cooperation on the part of the Board's several divisions having supervisory or advisory responsibilities in relation to the Reserve Banks, having in mind the appropriate separation of these two functions, such delineation to be worked out by the divisions concerned and submitted for Board approval. The Board had also indicated a lack of willingness at this time to accept any radical change in examination procedures or to place too much reliance

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on internal audits by the Banks' audit staffs in lieu of independent verifications by the Board's examiners.

Governor Shepardson reported in the memorandum that he had instructed the Director of the Division of Examinations to proceed vigorously with the improvement and modernization of the examination procedures and to initiate, in cooperation with the Personnel Division, a critical review of present personnel in the Division's field force along with an active recruiting program for the type of personnel needed for the program visualized by the Board, including such accelerated reclassification program as might be necessary to recruit and hold for reasonable periods the type of men desired. In addition, he had initiated a joint study, by the divisions concerned, of areas of responsibility in the supervision of the Federal Reserve Banks.

Governor Shepardson noted in his memorandum that the Board had not yet given any assignment to Haskins & Sells in connection with a review of examination procedures. On the assumption that the Board still desired an annual review by an outside firm of public accountants, he recommended that Haskins & Sells be given the usual assignment of reviewing an examination of a Federal Reserve Bank of their choice, with the general objective of determining its adequacy and with the added special objective of recommending possible further improvement in its efficiency.

Governor Shepardson also recommended that, in the absence of a sampling specialist on the Board's staff, the Division of Examinations

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be authorized to secure the consultant services of a specialist in this field who had training and experience in the area of audit sampling, to assist in determining the nature and extent of sample verification that would be valid and appropriate in the light of the Board's supervisory responsibilities.

Following comments by Governor Shepardson in amplification of his memorandum, the recommendations contained therein were approved unanimously. With respect to the recommended retention of a sampling specialist, it was understood that the Board would be afforded an opportunity to review the qualifications of whatever person was proposed to be retained for this purpose before final arrangements were made.

Governor Shepardson inquired whether the members of the Board agreed with the accuracy of the statements in his memorandum concerning the consensus of Board discussion at the meeting on March 25, 1963, and there was no indication to the contrary. Governor Robertson commented that he would have been inclined to emphasize the word "radical" in stating that the Board indicated a lack of willingness to accept any radical change in present examination procedures, and to emphasize the words "too much" in indicating that the Board did not want to place too much reliance on internal audits. However, this was merely a matter of emphasis on his part; it depended on how one read the words.

Services of receptionist. In view of a forthcoming retirement, question was raised by Governor Shepardson whether the Board would prefer the services of a male or female receptionist in the Oval at the entrance

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to the Board members offices on the second floor of the building. Although some slight preference was expressed for continuance of the present kind of service, it was indicated that there would be no objection to whatever arrangements might be worked out by Governor Shepardson in the light of all the circumstances involved.

The meeting then adjourned.

Secretary's Notes: Later in the day, upon checking with the available members of the Board (Chairman Martin and Governors Balderston, Shepardson, and Mitchell), approval was given to a letter to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of a branch in Bloomfield Township. A copy of the letter is attached as Item No. 4.

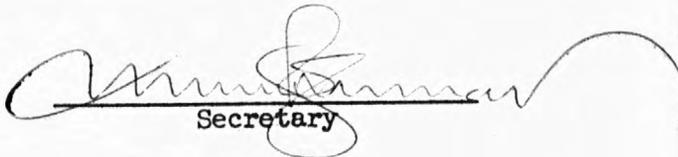
Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

Maria Ann Kasey as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,110, effective the date of entrance upon duty.

Acceptance of resignation

Nancy H. Keen, Secretary, Division of Data Processing, effective April 26, 1963.


Secretary



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

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Item No. 1
5/1/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 1963

Mr. Fred G. DeLong, Vice President
and Comptroller,
Mellon National Bank and Trust Company,
Mellon Square,
Pittsburgh 30, Pennsylvania.

Dear Mr. DeLong:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated April 1, 1963, of Mellon International Finance Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. The Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 211.3(c) of the Board's Regulation K.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

May 1, 1963

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated April 1, 1963, of MELLON INTERNATIONAL FINANCE CORPORATION, duly filed with said Board of Governors, and that MELLON INTERNATIONAL FINANCE CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(SEAL)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
5/1/63

OFFICE OF THE CHAIRMAN

May 3, 1963.

Honorable Dante B. Fascell, Chairman,
Legal and Monetary Affairs Subcommittee of the
Committee on Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This refers to your letter of March 13, 1963, inquiring into the extent of preventive measures being taken by Federal supervisory agencies to cope with crimes directed against banks and savings and loan associations. As stated in my acknowledgment of March 21, 1963, the Board of Governors and the Reserve Banks are responsible chiefly for the examination and supervision of State member banks of the Federal Reserve System. It is, therefore, our experience with such banks that is the basis for this response.

Referring generally to your letter and more specifically to Question 4, it is the Board's established policy to examine each State member bank, including its trust department, if any, at least once each calendar year. As at December 28, 1962, there were 1,544 State member banks with total commercial assets of \$88.8 billion and individual trust and agency accounts with a recorded value of more than \$100 billion. Examinations of these banks are conducted by Federal Reserve Bank examiners approved by the Board, and are made either jointly or independently through cooperative arrangement with the Banking Departments of the several States.

A bank examination is a fact-finding process designed to verify assets and appraise their value, determine liabilities, measure the adequacy of capital structure, analyze earnings and expenses, ascertain compliance with applicable laws and regulations, and assess the competence of management. A bank examination is not an audit since as a general practice it does not include detailed checking of entries relating to transactions or direct verification of individual loan and deposit balances. However, as a part of the examination process, the examiner reviews the accounting and operating systems of the bank and its program of audit and internal control, weighs the adequacy of its fidelity bond and other insurance coverage, and makes recommendations for the correction of any deficiencies in these aspects of the bank's operations. These recommendations carry considerable

Honorable Dante B. Fascell

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weight with the management of banks because of the background of general experience examining agencies have in the field of banking and bank supervision, the bank's own self-interest, and its obligation to its depositors, stockholders and the community it serves. In those rare instances in which management persists in following unsafe or unsound practices, the Board has authority to remove the culpable officers or directors, or to terminate the bank's membership in the System. Termination of membership automatically results in loss of deposit insurance.

Referring both to Questions 3 and 4, the subjects of internal controls, adequate fidelity bond coverage, direct verification of accounts by banks, and the scope and frequency of audit programs have frequently been brought to the attention of examiners. They have been directed to stress any deficiency in a bank's records, internal controls, insurance coverage, or audit procedures, and in specific cases, where internal audit procedures are inadequate or lacking, to recommend the employment of an independent public accountant to conduct suitable audits.

In all examinations, a comprehensive check sheet (copy enclosed) is used by examiners to point up weaknesses and deficiencies in operations and internal controls. Furthermore, examiners have been alerted to certain "danger signals" and investigative procedures have been formulated which may be employed in the course of regular examinations to disclose possible irregularities in specific areas of bank operations. There is enclosed a memorandum dated June 22, 1962, and a copy of the investigative procedures, both of which were sent to the Vice Presidents in charge of examinations at all Federal Reserve Banks.

Basic training in examining techniques with respect to records, systems, and controls is an important part of the curriculum of the Bank Examination School, established by the Federal bank supervisory agencies in 1952, and currently conducted cooperatively by the Board of Governors and the Federal Deposit Insurance Corporation. Four four-week sessions of a junior school for assistant examiners and two four-week sessions of a senior school for more experienced examiners are held each year. To date, 604 assistant examiners and 250 examiners for the Reserve Banks have attended the School. Also in cooperation with the FDIC, seminars to train examiners in the use of appropriate techniques and procedures in the examination of banks utilizing electronic data processing systems were introduced in 1962 with beneficial results and are being continued this year.

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For many years the Board, under an arrangement with the Department of Justice, has had outstanding letters of instruction to the Reserve Banks relating to reporting possible violations of the U. S. Criminal Code to the United States District Attorneys and local offices of the Federal Bureau of Investigation within their respective Reserve districts. State member banks are under instruction to notify immediately local authorities and local field offices of the Federal Bureau of Investigation of robberies and attempted robberies, and to advise the Reserve Banks of other possible violations of the U. S. Criminal Code in order that they may make reports thereof to the United States District Attorney and the Federal Bureau of Investigation. Copies of reports of violations made by the Reserve Banks are furnished to the Board of Governors and are transmitted by the Board to the Attorney General of the United States. Inquiries are made by examiners as to violations of the Criminal Code occurring between examinations of State member banks, and if proper notification and reports have not been made the matter is brought to the attention of the authorities and the officers and directors of the bank are instructed and cautioned regarding future violations.

While no specific instructions pertaining to physical security have been issued to examiners, apparent deficiencies in physical layout or bank routines which might tend to expose individual banks to robbery are brought to the attention of management during examinations. Specialized knowledge and guidance in this particular area is available to banks through private insurers, banking associations, and law enforcement agencies, including the Federal Bureau of Investigation.

Answering Questions 1 and 2, the System has not maintained records reflecting the number and dollar amount involved in robberies or attempted robberies of State member banks. However, no robbery or attempted robbery of a State member bank has come to the attention of the Board or the Reserve Banks that was not reported to local authorities and the local office of the Federal Bureau of Investigation, nor are we aware of any case of this type in which the net loss to the bank was not restored under its applicable insurance coverage.

With respect to violations of the Criminal Code involving bank personnel either directly or through collusion, the Board has cooperated for a number of years with the Insurance and Protective Committee of the American Bankers Association in its assembly of information relating to possible defalcations of \$10,000 or more, and for the years 1960 to 1962, inclusive, in the assembly of information relating to all bank shortages. There are enclosed Schedules A, B, C and D showing such information with respect to State member banks during the past five years.

Honorable Dante B. Fascell

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Other than with respect to applicable "deductible clauses" in fidelity and insurance policies, we are aware of only two cases during the past five years in which losses arising from violations of the Criminal Code involving personnel of State member banks were not covered by such policies. One was a currently operating bank in which a loss of \$101,401 occurred and the insurance amounted to \$100,000. The other was a bank which was closed and placed in receivership following disclosure during an examination of a shortage of approximately \$348,000 in relation to insurance of \$125,000. This bank is currently in process of liquidation by the Federal Deposit Insurance Corporation. No losses resulting from violations of the Criminal Code in State member banks have been sustained by the Federal Reserve System during the five year period.

In reviewing the appended schedules with respect to bank shortages reported to the United States Attorney, it should be borne in mind that the totals include a considerable number of cases, particularly cash shortages, in which the subsequent investigation may have disclosed the shortage was due to human error and that no criminal act on the part of bank personnel was involved. Also the number of cases reported and the amount involved as shown in these schedules should be related to the annual totals and growth of bank assets, personnel and offices of State member banks.

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Total Assets (billions)	\$73.6	\$73.1	\$77.3	\$84.3	\$88.8
Officers	20,581	20,877	21,567	22,412	22,985
Employees	<u>139,635</u>	<u>140,539</u>	<u>144,862</u>	<u>143,056</u>	<u>145,747</u>
Total Personnel	<u>160,216</u>	<u>161,416</u>	<u>166,429</u>	<u>165,468</u>	<u>168,732</u>
Banks - Head Offices	1,734	1,691	1,644	1,600	1,544
Additional Offices	<u>2,390</u>	<u>2,519</u>	<u>2,624</u>	<u>2,855</u>	<u>3,009</u>
Total Offices	<u>4,124</u>	<u>4,210</u>	<u>4,268</u>	<u>4,455</u>	<u>4,553</u>

Referring to Question 5, no special requirements for audits, internal or by public accountants, have been issued by the Board or the Reserve Banks. However, audits by independent accountants are recommended for the purpose of establishing the full extent of apparent defalcations in which the duration and total amount involved could not otherwise be disclosed. Also, as heretofore indicated, recommendations for the improvement of internal audit controls and the employment of independent public accountants are made as warranted by the findings of examiners in individual banks. As a part of the basic records of a bank, all regular and special audit reports, including those made by or for directors under applicable provisions of laws in some States, are available to examiners and supervisors for review and follow-up, if necessary.

Honorable Dante B. Fascell

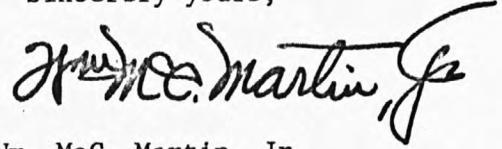
Regarding Question 6, in addition to developing and employing techniques and procedures designed to prevent or disclose criminal violations, the Reserve Banks cooperate with the proper authorities in the apprehension and prosecution of criminals by reporting violations of the Criminal Code, and their examiners furnish information to such authorities and appear as witnesses pursuant to subpoenas. The Federal Reserve System has no reward policies relating to the apprehension and prosecution of persons who commit crimes against State member banks.

In summary, and relating to Question 7, the Federal Reserve System has undertaken to keep informed as to the causes of crimes against banks through continuing review and discussion of the problem based on experience and knowledge gained in the examination of all State member banks. The System has endeavored to meet the situation by special training of its examiners, sharpening old and developing new examination techniques and procedures, and, where necessary, admonishing banks to improve their records, systems, internal controls, and audit programs.

For many years the Board and the Reserve Banks have cooperated actively with the Insurance and Protective Committee of the American Bankers Association in assembling information with respect to bank defalcations and shortages, and in inducing banks to protect themselves adequately against the losses arising from criminal violations through the adoption of comprehensive fidelity and insurance programs. In the latter connection, although it has been stressed that fidelity coverage is not a substitute for adequate internal and audit controls, a sustained effort has been made since 1958 to encourage banks to acquire Excess Bank Employee Dishonesty Blanket Bonds of \$1 million. Currently, a large majority of State member banks have this excess coverage or more than an equivalent amount of basic coverage.

We trust the foregoing information will be helpful to your Subcommittee.

Sincerely yours,



Wm. McC. Martin, Jr.

Enclosures



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
5/1/63

OFFICE OF THE CHAIRMAN

May 1, 1963.

The Honorable Dante B. Fascell,
Chairman, Legal and Monetary Affairs
Subcommittee of the Committee on
Government Operations,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

With further reference to your letter of April 1, 1963, the Board is glad to furnish your Subcommittee with the enclosed report of its operations in processing applications for bank mergers under the Bank Merger Act of 1960 (12 U. S. C. 1828(c)). A number of attachments that are referred to in the report also are enclosed.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures.

REPLIES BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
TO QUESTIONS REGARDING BANK MERGER PROCEDURES
CONTAINED IN LETTER OF APRIL 1, 1963, FROM CHAIRMAN DANTE B. FASCELL
OF THE LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
HOUSE OF REPRESENTATIVES

1. Describe in detail the practices and procedures established in processing bank merger applications under the Act, and furnish copies of all applicable regulations, rules and instructions, written and informal.

The practices and procedures established by the Board of Governors in processing bank merger applications under the Bank Merger Act of 1960 (the "Act") are described in detail in the following documents, copies of which are attached:

(1) Section 262.2 of the Board's Rules of Procedure (set forth in pages 24-26 of a printed pamphlet entitled "Rules of Organization and Procedure"), which describes the procedures followed by the Board in considering all types of applications and, in subsection (f) of section 262.2, certain special procedures followed in processing bank merger and bank holding company applications.

(2) "Internal Board Procedures with Respect to Holding Company and Bank Merger Applications," dated November 1, 1961.

(3) Form of Application to the Board of Governors (FR 70) for prior consent to a merger or other transaction pursuant to the Bank Merger Act, and the Board's letter of transmittal of August 24, 1960, to the Federal Reserve Banks.

(4) Form of Notice of proposed merger, dated 8-24-60, required by the Bank Merger Act to be published in newspapers.

(5) Form of Certificate of publication of proposed merger.

2. Are the banking agencies' and the Attorney General's reports on competitive factors sufficiently detailed to provide the information necessary for determinations of applications?

Reports on competitive factors submitted to the Board by the other two Federal banking agencies and the Attorney General have been, for the most part, sufficiently detailed to provide the Board with information and views that have proved helpful to the Board in considering the competitive effects of particular mergers. It may be noted that, in general, the information upon which such competitive reports are based is derived principally from the application filed with the Board, a copy of which is transmitted by the Board to the other banking agencies and the Attorney General. Under the Act, the reports are limited to "the competitive factors involved" in merger cases and, as indicated by the legislative history, are purely advisory.

3. Have there been instances where your agency has sought additional information from, or consultation with, the banking agencies or the Attorney General after receiving reports on competitive factors?

There have been no instances in which the Board has sought additional information from, or consultation with, the other banking agencies or the Attorney General after receiving their reports on competitive factors, except that, in some cases in which the Board has received additional information regarding the application after transmittal of requests for such reports, the Board has requested a further expression of views from the other banking agencies and the Attorney General in the light of such additional information.

4. Explain in detail the consideration and weight given to reports on competitive factors, particularly where such reports are adverse or indicate a proposed merger will tend to lessen competition.

In all instances the Board carefully considers and weighs the reports on competitive factors received by it, and especially in those instances in which the reporting agencies indicate that the effect on competition would be adverse. The effect on competition may, of course, vary from favorable to seriously adverse, and in some situations it is difficult to anticipate what the competitive effect may be. For this reason reports on competitive factors, both those submitted to and by the Board, may indicate that while the effect on competition may be adverse, it is impossible to state the degree of adverse effect.

5. Is a record maintained evidencing the consideration and weight given to adverse statements contained in reports, and of how competitive factors are evaluated?

Yes. As required by the Act, the Board publishes in each of its Annual Reports to Congress a statement of the "basis for its approval" of each merger during the year covered by the Report, along with a summary by the Attorney General of the substance of his report to the Board on the competitive factors involved. In addition, as indicated in subparagraph (4) of subsection (f) of section 262.2 of the Board's Rules of Procedure, every Order of the Board embodying its action on a bank merger application is accompanied by a Statement of the reasons for the Board's action and each such Statement of the Board is filed with the Federal Register and published in the Federal Reserve Bulletin. The statements regarding the basis for the Board's approval of applications published in the Annual Reports of the Board and, more specifically, the Statements issued by the Board setting forth the reasons for either approval or disapproval of merger applications constitute a public record that evidences the Board's consideration and evaluation of any adverse competitive factors.

6. In those cases where the Attorney General has instituted legal action after the approval of bank mergers, had your agency, directly or indirectly, received any prior indication that such legal action might or would follow approval?

In only one instance has the Attorney General instituted legal action after approval of a bank merger by the Board of Governors.

In September 1961, the Board approved the merger of Manufacturers Trust Company, New York, New York, with The Hanover Bank, New York, New York. A summary of the report made by the Attorney General on the competitive factors involved in this case and the basis for the Board's approval of the application are set forth in the Board's Annual Report for 1961 at pages 176-177. Subsequently, the Attorney General instituted antitrust proceedings in connection with this matter. However, the Board received no prior indication, directly or indirectly, that such action might or would follow the Board's approval of the merger.

7. What, if any, criteria (other than the banking and competitive factors contained in the Act) does the agency consider in determining whether the proposed merger is in the public interest?

Since the criteria in the Act are stated in general and comprehensive terms, it has not been necessary for the Board to consider any criteria other than those.

8. How does the agency define "public interest" in terms of bank merger situations?

The Board has not attempted to formulate any general or categorical definition of the "public interest" in terms of bank merger situations. Any definition of the public interest purporting to be applicable to all cases would, in the Board's opinion, be inconsistent with the intent of Congress that this question is one to be determined by the appropriate bank supervisory agency on the basis of the facts of each particular case considered in the light of all the criteria set forth in the Act.

In determining whether to approve or disapprove a particular merger, the Board is required by the Act to consider the various factors therein stated, and the Board may not approve a particular transaction "unless, after considering all of such factors, it finds the transaction to be in the public interest." Whether a particular merger is in the public interest must be determined, as a matter of judgment, after careful balancing of all considerations pertinent to all of the criteria set forth in the Act. This approach appears consistent with the intent of Congress as reflected in the Reports of the Senate and House Committees on Banking and Currency.

9. Does the agency have any recommendations or proposals for changing bank merger procedures?

The Board believes that its experience in administration of the Act has not yet been sufficient to warrant specific recommendations or proposals.

10. How many merger applications have been submitted for agency approval since passage of the Bank Merger Act, and the disposition thereof?

The disposition of merger applications received by the Board is as follows:

	<u>Approved</u>	<u>Denied</u>
1960	17	3
1961	32	4
1962	37	5
1963 to date	13	1

As of April 30, 1963, seven merger applications were pending before the Board. These figures do not reflect applications for reconsideration, applications withdrawn, and cases where the proposed merger was disapproved by State authorities.

11. Are your agency's reports on competitive factors, which are made to the other banking agencies, based solely upon analyses of information submitted by applicants; if not, describe the amount and kind of independent research and investigation undertaken by your agency.

Reports on competitive factors submitted by the Board are based upon all relevant information available to the Board. The reports involve consideration of information submitted by the applicants, information in reports of examination of the banks involved, and in some cases information obtained by an investigation undertaken by one of the Federal Reserve Banks or developed by the Board's Banking Markets Unit in its Division of Research and Statistics.

It may be noted that the application form in use by the Board was devised by the three Federal banking agencies and the Department of Justice, as noted in the attached letter of August 24, 1960, from the Board to the Federal Reserve Banks. The application form, among other things, requires the submission of such information as was felt germane to a determination of the effect on competition. The questions contained in the form, copy attached, were formulated so that information unfavorable to the application as well as information favorable to the application would be supplied. The application form, as presently constituted, is considered generally satisfactory by the Federal Reserve System.

Attachments

May 1, 1963.

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

Item No. 4
5/1/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 2, 1963



Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch at 2580 Woodward Avenue, Bloomfield Township, Oakland County, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)