Minutes for November 27, 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. Mitchell
Minutes of the Board of Governors of the Federal Reserve

System on Wednesday, November 27, 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
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. Shay, Assistant General Counsel
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Sammons, Adviser, Division of International Finance
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division
Mr. Hricko, Senior Attorney, Legal Division
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics  
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations  
Mr. White, Review Examiner, Division of Examinations

Application of Bank of Virginia. There had been distributed a memorandum dated November 22, 1963, from the Division of Examinations analyzing the application of The Bank of Virginia, Richmond, Virginia, to merge with The Hallwood National Bank, Hallwood, Virginia. The Division recommended that the application be approved.

After Mr. Leavitt had summarized the circumstances underlying the application, he responded to several questions posed by members of the Board.

The members of the Board then expressed their views, beginning with Governor Mills, who stated that he was not able to detect any evidence that the public interest would be advanced by the proposed transaction. He believed that the application should be viewed both on the basis of the proposed merger itself and the relationship to Virginia Commonwealth Corporation, the bank holding company with which Bank of Virginia was identified. The merger, if consummated, would increase the concentration of assets and resources controlled by Bank of Virginia and by Virginia Commonwealth; moreover, the merger would be a further step in the expansion by Virginia Commonwealth and other Virginia holding companies throughout the State. Hallwood National Bank, as had been indicated, was capable of operating satisfactorily as
an independent bank. It was located in an area where there were a
congeries of small banks competently serving the kinds of business
available to them and where the larger accounts, as necessary, could
be serviced by affiliates of Financial General Corporation and nearby
branches of Maryland National Bank. The only advantage that he could
see to the proposal was that it would afford stronger competition to
Financial General and the Maryland National Bank entities. However,
he would subordinate that consideration to the elimination of an in-
dependent bank and the rather severe competitive potential to which the
other small banks would be exposed if the application were approved.
Although the Board, in considering some applications that were regarded
as neutral, had leaned to the side of giving the applicants the benefit
of the doubt, he regarded this particular application as not neutral
but as having adverse effects. Therefore, he believed that it should
be denied.

Governor Robertson expressed the view that this was a very close
case. He did not believe there was any significant competition between
the banks involved. Also, it seemed probable that Bank of Virginia
would provide broader services in the Hallwood area. However, he agreed
with Governor Mills that there was no evidence in the record of a need
existing for the merger or of the inability of the Hallwood bank to
perform satisfactorily. This was one more step, even though a small
one, toward greater concentration. Viewed as part of an over-all picture,
the application was the most recent evidence of the aim of this holding
company to expand rapidly; recently the Board had had before it a report on competitive factors in the Nokesville case, in which another small institution was being taken over. It seemed that, little by little, concentration was being increased and small banks were being replaced by a holding company system through the merger route. Because of the added concentration inherent in the proposal, he would stop right here, and therefore would vote against the application.

Governor Mitchell stated that he would approve for the reasons given in the memorandum submitted by the Federal Reserve Bank of Richmond. He thought that the Hallwood bank was not giving adequate service to the area, and believed that bank holding companies in Virginia had long since embarked on a program of expansion that could scarcely be stopped at this point.

Governor Balderston indicated that he would approve for the reasons given by the Division. The premium being offered concerned him, but he felt that the Hallwood bank was not giving the service that the community needed; while he was not familiar with this particular town, he was familiar with the area to the north. In his view, the position taken by the Division was convincing.

Chairman Martin stated that he would approve for the reasons given by the Division. He believed that the public interest would be benefited by the additional banking services that Bank of Virginia would provide, and that the community needed those services.
The application of The Bank of Virginia was thereupon approved, Governors Mills and Robertson dissenting. It was understood that the Legal Division would prepare for the Board's consideration drafts of an order and statement reflecting this decision, and that a dissenting statement or statements by Governors Mills and Robertson also would be prepared.

Secretary's Note: Before the meeting, Governor Shepardson had informed the Secretary that he would have voted to approve this application if present at the meeting at which action was taken on it.

Messrs. Hricko and White then withdrew from the meeting.

Mergers of bank holding company subsidiaries and independent banks (Item No. 1). On November 8, 1963, the Board discussed the question, presented by the Legal Division in a memorandum dated November 7, 1963, whether the proposed merger of the Bank of Occoquan, Occoquan, Virginia (a subsidiary of Virginia Commonwealth Corporation), with The Bank of Nokesville (an independent bank), which fell primarily within the jurisdiction of the Federal Deposit Insurance Corporation, required a collateral application for Board approval under Section 3(a)(2) of the Bank Holding Company Act since, under Virginia law, the holding company would technically acquire stock in a new bank, The Bank of Prince William. On balance, and for reasons stated in the memorandum, the Legal Division recommended that the Board take the position that no collateral application for Board approval was required. There were attached to the memorandum alternative drafts of a letter to Counsel
for Virginia Commonwealth Corporation, one of which would express the opinion that an application must be filed with the Board under the Bank Holding Company Act before the proposed transaction could lawfully be consummated, and the other of which would indicate that no such application was required. Discussion at the November 8 meeting did not result in agreement as to the position to be taken, and the Legal Division was asked to study the question further.

There had now been distributed a memorandum dated November 20, 1963, in which the Legal Division stated that upon reconsideration it remained convinced that, although a plausible argument could be made to the contrary, the sounder conclusion for the Board to reach was that the regulatory provisions of the Bank Holding Company Act were inapplicable to mergers between holding company subsidiary banks and independent banks. Extensive comments in support of that view were set forth in the memorandum.

At the Board's request, Mr. Bakke summarized and supplemented the Legal Division's memorandum. He concluded his remarks with the statement that, while it was true that if the Board reaffirmed its previous position, holding companies could expand in certain circumstances without the Board's approval, it was the opinion of the Legal Division that the expansion that might result was more illusory than real. The position that the Legal Division recommended that the Board reaffirm was believed to be consistent with the intent of Congress in enacting the bank holding company statute.
Governor Mitchell commented that in his view the stronger policy decision would be not to take the position recommended by the Legal Division. If the Board allowed the perpetuation of a loophole through which bank holding companies could escape the Board's jurisdiction, the Board would be proceeding contrary to the theory of the Bank Holding Company Act, responsibility for the administration of which the Congress had vested in the Board. He believed that such a legislative intent could be established as readily as an intent to remove part of the responsibility from the Board. Here it was proposed that the Board say by interpretation that the judgment of other agencies should be substituted for the Board's own judgment. This present case was unimportant, but a really important case might be framed in such a way as to move it to the jurisdiction of an agency other than the Board. He believed that the Board ought to be trying to keep all aspects of holding company expansion as close to its jurisdiction as possible.

Governor Mills stated that he was persuaded by the Legal Division's reasoning that the law, as it stood, did not give the Board authority to intervene under the Bank Holding Company Act where a subsidiary of a holding company proposed a merger with an independent bank. He was not unsympathetic to Governor Mitchell's reasoning, but would take the view that the Board should not attempt a construction of the law that would be so elastic as to permit its rather clear intent to be side-stepped. The ultimate remedy, as suggested in the memorandum and in earlier discussion, might be to ask Congress to amend
the law. However, in the present climate of differences of approach on the part of the three supervisory agencies under the Bank Merger Act, such a request might only create rancor and difficulties that the occasion did not justify. Therefore, he would lay that particular remedy on the table.

In further discussion, Mr. Hackley commented that the fundamental question was whether under the Bank Holding Company Act the Board must approve every merger by a subsidiary of a holding company with an independent bank. In his view the Board would be in a vulnerable position if it adopted the position that the Holding Company Act required the Board to approve all such mergers, in view of the fact that that seemed contrary to the intent of Congress.

Governor Robertson referred to a statement in the first alternative letter attached to the Legal Division's memorandum of November 7, 1963, as follows: "Notwithstanding that the Bank Merger Act affords Federal supervisory control over mergers between banks, there remains the fact that section 3(a)(2) of the Bank Holding Company Act enjoins the acquisition by a bank holding company of more than 5 per centum of the voting shares of a bank in which it does not already have majority ownership or control, and therefore if a proposed merger involves such acquisition of voting shares the Board has no choice but to honor the Congressional mandate regarding the applicability of section 3(a)(2) of the Act thereto. While this results in an overlap of Federal supervisory control, the duplication is one of legislative direction, not the Board's
choice in the matter." It seemed to Governor Robertson that that statement was correct from the technical point of view; the only justification for an opposite view was that the kind of stock acquisition involved in the Nokesville case was not the kind contemplated by the Bank Holding Company Act. However, this was a technical point, and he did not see that the Board would make a great mistake in going either way, except that if section 3(a)(2) of the Holding Company Act were to become a loophole through which Virginia Commonwealth or any other holding company could seek the jurisdiction of one of the other supervisory agencies in order to expand, the Board might be called upon to explain its position in view of the language of the statute. He would not have strong feelings for or against the adoption by the Board of either position.

Governor Balderston commented that he did not believe that the technicalities of Virginia law should trouble the Board too much. He had sympathy with Governor Mitchell's point of view, and had been concerned about the Morgan New York State Corporation case in 1962 because it carried the possibility of half a dozen banking systems in New York State, each of which could be branched, with a resulting extensive network. However, he would accept the Legal Division's recommendation.

Chairman Martin stated that he was persuaded by the Legal Division's memorandum. It seemed to him that the law was clear.

At the conclusion of the discussion it was the consensus that the position that section 3(a)(2) of the Bank Holding Company Act did not apply to mergers between holding company subsidiary banks and
independent banks should be reaffirmed. Accordingly, the second alterna-
tive draft of letter that had accompanied the Legal Division's memorandum
of November 7, 1963, was approved. A copy of the letter is attached as
Item No. 1.

Messrs. Hexter, O'Connell, and Bakke then withdrew and Mr. Schwartz,
Director, Division of Data Processing, entered the room.

Discount officers conference. There had been distributed a
memorandum dated November 14, 1963, from Mr. Holland reporting on the
meeting of discount officers of the Federal Reserve Banks held on
October 29, 1963. The conference had devoted the bulk of its time to
three subjects: (1) the increased pressure that had been and was likely
to be put on discount administration as a result of the shift to a some-
what less easy general monetary policy; (2) the revision of Regulation A,
Advances and Discounts by Federal Reserve Banks, that might be adopted
if the Congress should adopt discount legislation recommended by the
Board; the loan officers contributed a number of suggestions supplementing
the formal Reserve Bank replies to the Board's letter of August 22, 1963;
and (3) the desirability of achieving appropriately uniform lending
procedures to be followed under a revised Regulation A. The Reserve
Bank officers expected that some guiding principles in this area would
be developed and promulgated, and wished to help in their formulation.

The memorandum concluded by recommending that a letter be drafted
setting forth guiding principles for Reserve Bank lending under the
proposed revision of Regulation A, it being contemplated that the first
draft of letter would be prepared by the Board's staff in consultation with discount officers, for consideration by the Board and subsequent formal transmission to the Reserve Banks for comment. It was also recommended that a second discount officers conference be convened at an appropriate time next year, at which the group could concentrate its attention on operating procedures, including particularly means of judging and restraining continuous borrowing.

After comments by Mr. Holland, Governor Robertson suggested that it would be well to institute an educational program for discount officers of the Federal Reserve Banks, especially to prepare them for changes that might be expected in the nature of Federal Reserve discounting, that is, from the current practices under which the officers were rarely called upon to deal with anything but Government securities as collateral to the type of appraisals they might be expected to make of commercial paper. Other members of the Board expressed concurrence.

At the conclusion of the discussion it was understood that consideration would be given to the organization of such a program, and agreement was expressed with the recommendations in Mr. Holland's memorandum.

**Format for call report of condition (Items 2 and 3).** There had been distributed a memorandum dated November 19, 1963, from the Division of Bank Operations reporting on the results of inter-agency staff negotiations concerning the form of the call report of condition, and on alternative methods of collecting usable statistics in the forthcoming call.
It was noted in the memorandum that the Federal Deposit Insurance Corporation had decided to use the same form as was used by all insured banks on June 29, 1963, for the forthcoming call. Thus, State banks would continue to report on the 1961 format, while national banks would report on the revised face used at the September call. The reverse side would be unchanged in appearance from the 1961 format; it would also be unchanged in content except that Federal funds sold, a new item on the face of the national bank form, would not be in the loan schedule. Representatives of the Comptroller of the Currency had informed the Division of Bank Operations that the Comptroller would make no further substantive changes on the face of the national bank form for December and would not include a slip-sheet reconciliation form for purposes of making available usable all-bank statistics on securities of States and political subdivisions, other securities, and corporate stocks. (The detailed schedules on the back of the form would, however, be consistent among the agencies, and usable detail statistics on loans, Government securities, cash assets, and deposit breakdowns would be available.) A draft of letter to the Comptroller that might be used to obtain confirmation of this understanding was attached to the memorandum.

Alternative actions that the Board might take to collect usable statistics at the December call date were (a) to make a call on national banks under section 11(a) of the Federal Reserve Act to submit full reports of condition to the Reserve Banks on the old basis; or (b) to request national banks to submit a reconciliation slip-sheet, in some form, to the Federal Reserve Banks.
The memorandum discussed the advantages and disadvantages of these alternatives and recommended that the Federal Reserve Banks request from each national bank a simplified balance sheet reconciliation statement that could be processed and edited under existing automated processing procedures with only minor modifications. A draft of letter to the Bureau of the Budget requesting approval was attached to the memorandum, with the thought that it would be sent if the understanding of the Comptroller's position was confirmed.

After comments by Messrs. Conkling and Holland weighing the considerations in the choice of alternatives and describing the inter-agency staff negotiations thus far on reporting uniformity among the bank supervisory agencies, it was the consensus that the Board should adopt the procedure recommended by the Division of Bank Operations. Question was raised as to the necessity for the letter to the Comptroller of the Currency, but it was brought out that it seemed advisable to have direct word from the Comptroller, since the present understanding was based on staff discussion.

At the conclusion of the discussion the letters to the Comptroller of the Currency and Bureau of the Budget were approved unanimously. Copies are attached as Items 2 and 3.

Messrs. Cardon, Shay, Leavitt, Eckert, and Veenstra then withdrew from the meeting and Mr. Collier, Chief, Current Series Section, Division of Bank Operations entered the room.
Cooperation with Western Hemisphere central banks. There had been distributed a memorandum dated November 26, 1963, from Mr. Young regarding conversations he and Governor Mitchell had had with the Latin American central banking community--notably the President of the Central Bank of Venezuela and the Director of the Center for Latin American Monetary Studies--regarding the desirability of, and possible means for achieving, closer cooperation among the monetary authorities of the Western Hemisphere. A primary object of such an effort, at least from a Federal Reserve point of view, would be to widen the understanding of the proper role of national monetary and fiscal policies in providing a financial climate under which the private and public productive energies of Western Hemisphere economies could find constructive and equitable fulfillment. Until recently, discussions had been confined to the suggestion that it would be highly useful for the top officials (governors or deputy governors) of central banks to meet occasionally and discuss matters of mutual concern, at first annually or even semi-annually, and later perhaps quarterly. However, the recent conference of central bank technicians in Rio de Janeiro had developed a view among the Latin American participants that something more than a discussion conference would be needed to attract the attendance of top officials. It was contended that an institution with substantial, although not necessarily extensive, financial responsibilities would really be needed to ensure continuity and dignity. Such an institution, perhaps modeled after the Bank for International Settlements, might serve
as a first line of secondary reserves (before resorting to the International Monetary Fund), especially for the smaller countries. There had been no suggestion at the Rio meeting that the contributing members of such an institution should include the United States and Canada. However, it was also clear that the active cooperation of those two countries was desired, if not essential to the success of the scheme.

The conference of technicians had recommended that the Center for Latin American Monetary Studies make a study of possible ways of achieving the desired objective, and that it report its progress to the various central banks as soon as possible. The Director of the Center had now suggested that a conference of central bank governors be held next spring and proposed a steering committee to plan the conference discussions. As a central theme for the conference, he had proposed the subject "mechanisms for financial coordination," so that consideration of a Bank for International Settlements-type institution for Latin America might become one of the matters for conference discussion. The steering committee, under his plan, would meet in January. The Director felt that the Federal Reserve ought to participate in both the steering committee and the conference session, it being understood that the System would be free to decide later on what association it desired to have with any further program that might be developed. Such participation, the memorandum pointed out, would provide System representatives with an occasion to keep in the immediate foreground the thought of a conference of Western Hemisphere central bank governors, and to
emphasize the desirability of maintaining a hemispheric frame of reference in any further conference planning. Also, participation, even if only in one conference, would afford a setting favorable to special educational effort in behalf of sound financial policies in Latin America.

After further comments, Mr. Young's memorandum concluded with the recommendation that the Board authorize the staff to participate in any further inter-American discussions of this subject that might occur in the near future, and to which the Federal Reserve might be invited. In particular, Mr. Young recommended that he and Mr. Sammons be authorized to attend the proposed meeting of the steering committee (probably to be held in Mexico City), and that he be authorized to indicate to the Director of the Center for Latin American Monetary Studies that they would be prepared to attend such a meeting.

At the Board's invitation Mr. Young supplemented the information in his memorandum, commenting especially on the nature and extent of previous technical cooperation by the Federal Reserve with other countries in dealing with problems of inflation, financial and banking legislation, and related matters. He also described the extent to which the proposals for periodic meetings of central bank governors had been discussed informally with representatives of the State and Treasury Departments and had received endorsement.

Governor Mitchell expressed some reservation as to the proposal for establishing a new institution. In his participation in the discussions,
he said, he had tried to stress the importance of making any conference of governors hemispheric, with the United States and Canada included among the nations represented. In his view, if the United States was to use its moral suasion and strength in Latin America, it must act on parity with the Latin American countries. After further comments on the discussions he had had, he expressed the view that the proposal for a conference of governors had sufficient merit to deserve further exploration.

Governor Mills expressed concern that a new international institution might duplicate existing institutions, at least to some extent. He had misgivings that identification of the United States with the proponents of such a proposal might provide the very force that would carry the idea beyond the discussion stage. He also observed that, with a new Administration now coming into office following the recent assassination of President Kennedy, the officials in the State and Treasury Departments who had been approached about the conferences of central bank governors might not continue in the same positions.

Chairman Martin remarked that the proposals had pitfalls of which all were aware. In any initial discussions, it would be well to bear in mind the points Governor Mills had made. It seemed probable, however, that whatever Administration was in office would support the proposal for a new international organization if a useful framework was developed, or would oppose it if the plan seemed to offer only duplication of existing facilities.
In further comments it was observed that while a Federal Reserve delegation might be instructed to refrain from discussing at this time the possibility of a new organization, representatives of the other nations attending might nonetheless proceed with such discussions. On the other hand, notwithstanding the spontaneous enthusiasm that had been expressed at the meeting of central bank technicians, such enthusiasm might dwindle.

At the conclusion of the discussion Messrs. Young and Sammons were authorized to attend the meeting of the steering committee to be held in Mexico City in January as well as any other similar meetings that might be scheduled in the near future.

Messrs. Molony, Kenyon, Noyes, and Sammons then withdrew from the meeting.

Study of bad debt reserves (Item No. 4). There had been distributed a copy of a letter dated November 20, 1963, in which the Treasury Department requested assistance in a study of commercial bank bad debt reserves for tax purposes, looking toward a careful economic and statistical appraisal of those reserves with a view to remedying any serious inequities that might exist. Within the next week the Treasury planned to have ready a relatively short questionnaire that it was hoped the Board would send to each State member bank. Similar requests were being addressed to the Comptroller of the Currency with respect to national banks and to the Federal Deposit Insurance Corporation with respect to
nonmember insured banks. The Treasury Department would provide a letter to the banks giving instructions on completing the form and assuring them that no individual bank data would be published. The form was to be returned with the December 1963 report of condition. The letter from the Treasury Department indicated that the assistance of the Board's data processing staff was requested in connection with the project.

During discussion the staff furnished information as to the amount of computer time and expense that might be involved in compliance with the Treasury's request. Some misgivings were expressed that the questionnaire might be regarded by State member banks as a request from the Federal Reserve rather than from the Treasury Department. The objectives and scope of the Treasury research project and the extent to which it might yield benefits were also discussed.

At the conclusion of the discussion, approval was given to a reply to the Treasury Department in the form attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

Memorandum from the Division of Personnel Administration recommending the appointment of Dorothy B. Saunders as Secretary to Mr. Daane, Board Members' Offices, with basic annual salary at the rate of $8,575, effective the date of entrance upon duty (December 2, 1963).
Memorandum from Mr. Young, Adviser to the Board and Director, Division of International Finance, requesting that the Board authorize payment of the cost of a small dinner at the Cosmos Club on December 2, 1963, in honor of Jasper Rootham, Chief, Central Banking Information Department, Bank of England.
November 27, 1963.

R. Colston Christian, Esq.,
State Planters Bank Building,
Richmond, Virginia.

Dear Mr. Christian:

The Board has considered the relevant facts concerning the proposed merger between The Bank of Occoquan and The Bank of Nokesville, including the representations contained in your memorandum on the subject dated October 25, 1963, which was submitted to the Board through the Federal Reserve Bank of Richmond.

On the basis of this consideration, it has been concluded that prior approval of the transaction by the Board is not required by section 3(a) of the Bank Holding Company Act of 1956.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. James J. Saxon,
Comptroller of the Currency,
Main Treasury,
Washington, D. C. 20220

Dear Mr. Saxon:

This refers to the Board's letter to you, dated August 27, 1963 and to subsequent meetings of the staffs of the three Federal bank supervisory agencies and the National Association of Supervisors of State Banks with respect to the format to be used in the call report of condition.

It is understood that some progress has been made toward eventual uniformity in the format but that at the forthcoming call State banks will use the format adopted in 1961 and your Office will require from national banks substantially the same format on the face as revised for the September 30 call, although all of the reverse side schedules will follow the 1961 format.

In these circumstances, some additional information must be collected for national banks in order that bank statistics may be compiled to meet the critical need for consistent benchmark data, and to measure the breaks in existing statistical series. Alternative forms have been discussed at staff meetings.

It is also understood that your Office is unwilling to undertake the collection of information from national banks under either of these alternatives or in any other manner that would produce year-end national bank statistics comparable with those to be collected from all other commercial banks. In making its own plans to obtain usable statistics at the forthcoming call, the Board would appreciate verification that its understandings of your position in these matters is correct.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. David Cohn, Clearance Officer,  
Office of Statistical Standards,  
Bureau of the Budget,  
Executive Office of the President,  
Washington, D. C. 20503

Dear Mr. Cohn:

This is to request clearance by your agency of a reconciliation schedule to collect condition report statistics from all national banks on a basis consistent with those to be collected from State banks at the forthcoming year-end call date. Two copies of your form 83 and the proposed form together with the required supporting statement are attached.

The Board's letter of August 30 advised you of changes made in the national bank condition report form for the fall call date that would make tabulations of call data for all insured banks impossible. Mr. E. T. Crowder of your Office has been advised of subsequent developments and the unsuccessful negotiations between the three Federal bank supervisory agencies and representatives of the National Association of Supervisors of State Banks to obtain consistent data for the year-end call.

Representatives of the Comptroller of the Currency have informed us that he will make no further substantive changes of the face of the national bank form for December and that the form will be substantially the same as that used for the September call. A copy of the Board's letter to the Comptroller is enclosed for your information.

All insured State banks will continue to report on the format adopted in 1961 and used since that time. The reverse side of both forms will be unchanged in appearance from the 1961 format and will also be unchanged in content except that Federal funds sold, a new item on the face of the national form, will not be included in the loan schedule. Therefore, detail information on loans, cash assets, and deposits from the reverse side will be available on a consistent basis.
The Board has decided to collect a simplified balance sheet reconciliation statement from all national banks that can be edited and tabulated using automated procedures presently in effect. This statement can be combined with the national bank condition report form to obtain, on a consistent basis, all information to be collected from State banks. Although this method will require some dual reporting by national banks in that a few items which are the same must be reported on two forms, it is considered necessary since it would be practically impossible at this late date to revise the automated tabulating procedures used at the Board and at the Federal Reserve Banks. It is believed that use of this type of reconciliation statement will preclude any delays in availability of summary statistics from the year-end call. Use of the familiar balance sheet type of statement will be less burdensome on national banks than a complex reconciliation statement which is not familiar to reporting banks and therefore subject to substantial reporting errors.

Because of serious time limitations to prepare for the year-end call, the Board would appreciate favorable consideration of this form at your earliest convenience. The delay in presenting this request for clearance resulted from the extended negotiations among the banking agencies.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures.
MEMORANDUM FOR:

Mr. David Cohn, Clearance Officer,
Office of Statistical Standards,
Bureau of the Budget,
Executive Office of the President,
Washington, D. C. 20503

Supporting Statement to Request for Approval
of Statistical Reconciliation Schedule for
National Bank Condition Report Series

A. Justification of Form or Other Document (or revision thereof)
in its Relation to Operating or Research Programs

The attached slip-sheet reconciliation schedule is required to collect balance sheet information from national banks on a basis consistent with that to be collected from all insured State banks. These data, when tabulated with other information derived from the call report of condition of national banks (Comptroller of the Currency form 2130A), will be combined with similar information for State banks tabulated from Federal Reserve form FR 105, the condition report form for State member banks of the Federal Reserve System, and Federal Deposit Insurance Corporation form 64 used by insured nonmember State banks. These summary tabulations are the primary source of commercial banking condition data and are widely used by economists, financial analysts and others in Government and elsewhere and are required by the Board in the conduct of its responsibilities for monetary policy.

B. Justification of Method Used in Selecting and Contacting Those
to be Covered

This form will be collected from all national banks in the United States (about 4,600) that report to the Office of the Comptroller of the Currency on form 2130A.
C. Brief Description of Plans for Collection, Tabulation and Publication

It is planned that this form will be used only for the forthcoming year-end call date and the data will be consolidated by automated procedures at the Federal Reserve Banks with information from the Federal Reserve Banks' copy of the official national bank condition report to obtain complete and consistent condition data for all national banks. The forms will be collected and keypunched at the Federal Reserve Banks with information on State member banks and tabulated on the Board's computer with data for insured nonmember banks furnished on punched cards by the FDIC. Summary data will be published, as usual, in the Summary Report of Assets and Liabilities of Member Banks and in the Federal Reserve Bulletin, as well as used internally by the Board staff and the staffs of other Government agencies that rely on these data.

D. Documentation of Consultation with those Supplying Data, Users of the Data, and Others

The format of this reconciliation schedule has been discussed in general terms with members of the staff of the Comptroller of the Currency (Messrs. Shapiro and Watson), and the staff of the Federal Deposit Insurance Corporation (Messrs. Cramer and Cresswell). The final format, however, was determined by the staff of the Federal Reserve and was drafted in a form that could be tabulated with some minor modifications in procedures under established automated processing techniques in effect at the 12 Federal Reserve Banks and at the Board with a minimum reporting burden on respondent national banks. The format used is a simplified balance sheet with which national banks are familiar and the content of the items is the same as that used by national banks prior to the September 30 call date when the national bank form was revised.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Attachments.
Mr. Stanley S. Surrey,
Assistant Secretary of the Treasury,
Washington, D. C.

Dear Mr. Surrey:

This refers to your letter of November 20 regarding the Treasury Department's proposed study of bad debt reserves of commercial banks for tax purposes. The Board would be willing to include a copy of your questionnaire form with the report of condition in December 1963, and would appreciate receiving a draft of the proposed form as soon as practicable.

The Board also is pleased to make available the assistance of its Data Processing staff. In addition to the advice on planning requested in your letter, the Division will arrange for programming and machine processing in connection with the study, along the lines indicated by Mr. Sherman Shapiro in conversations with members of our staff. It is understood that draft detailed specifications for the various stages of the data processing will be furnished in the relatively near future.

It is also understood that the Treasury Department, with the assistance of the Division of Data Processing, will arrange for key punching the data as reported in the questionnaire form.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.