

Minutes for April 1, 1964

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

(Handwritten initials)

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

(Handwritten initials)

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, April 1, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Shepardson
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Connell, Controller
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Senior Economist, Division of Research and Statistics
Mr. McClelland, Assistant to the Director, Division of Examinations

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Mr. Egertson, Supervisory Review Examiner,
 Division of Examinations
 Mr. McClintock, Supervisory Review Examiner,
 Division of Examinations
 Mr. Poundstone, Review Examiner, Division of
 Examinations

Approval of proposed letters (Item 1-7). Letters described as follows were approved unanimously after discussion of supporting material, including staff recommendations, that had been either circulated or distributed to the Board prior to this meeting. Copies of the letters, as approved, are attached to these minutes under the respective item numbers indicated.

	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Torrance.	1
Letter to Quincy Trust Company, Quincy, Massachusetts, approving the establishment of a branch in Randolph, with the understanding that the common capital stock of the bank was to be increased prior to or concurrent with the establishment of the branch.	2
Letter to Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations regarding the increased charges for reports of examination of national banks acquired by the Federal Reserve Banks from the Office of the Comptroller of the Currency.	3
Letter to the Chairman of the Federal Deposit Insurance Corporation regarding proposals under consideration by the Board with respect to the release of reports on competitive factors in connection with applications under the Bank Merger Act of 1960 (with similar letters to the Comptroller of the Currency and the Department of Justice); letter to the Secretary of the Treasury concerning the proposals under consideration by the Board.	4-5

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	<u>Item No.</u>
Letter to the Comptroller of the Currency relating to the Board's procedure in inviting his comments on applications from national banks to establish branches in foreign countries and applications from corporations operating under Regulation K and owned by national banks to make substantial stock investments in foreign companies.	6
Letter to Chairman Robertson of the Senate Banking and Currency Committee reporting on S. 2671, a bill to redefine the silver content in silver coins.	7

In the paragraphs that follow, reference is made to certain aspects of the discussion by the Board of the foregoing items.

On the letter to Chairman Fascell regarding the increased charges for examination reports of national banks purchased by the Federal Reserve Banks from the Office of the Comptroller of the Currency (Item No. 3), two changes were decided upon in the draft letter that had been distributed prior to the meeting. It was agreed to include a paragraph containing information understood to be desired by the staff of the Legal and Monetary Affairs Subcommittee concerning the estimated cost of reproducing copies of examination reports if the originals or copies thereof were available for that purpose. It was also agreed that the final paragraph of the draft letter should be revised to present a brief statement that from a basic accounting standpoint the Comptroller's higher charges for examination reports of national banks had the effect of reducing the Reserve Banks' annual payments to the United States Treasury.

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The letters to the other bank supervisory agencies and to the Department of Justice inviting comments with regard to the proposals under consideration by the Board for the release of reports on competitive factors (Item No. 4) were amended so as not to specify that comments were requested within 10 business days. This change was decided upon following a discussion that included the comment by Governor Mills that he saw no urgency in the matter. The proposals, he noted, would involve the adoption of procedures concerning which he continued to have reservations, for reasons he had expressed on previous occasions. He did not, however, dissent from the sending of the letters because the contemplated procedures outlined therein would move in a direction that he understood to be favored by a majority of the members of the Board.

The proposed letter to the Comptroller of the Currency (Item No. 6) relating to the matter of inviting his comments on certain applications involving international operations by national banks or subsidiaries thereof was a revised draft prepared pursuant to the understanding at the meeting on March 31, 1964. The revised draft was modified, in the final paragraph, to reflect a consensus that the Board should continue to invite the comments of the Comptroller on such applications. This was with the understanding that the question might be reviewed later, in the light of developments, if the Comptroller should consistently fail to respond to the Board's letters inviting his comments.

It was understood, in this connection, that the Comptroller's comments would be invited on an application by Bank of America National

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Trust and Savings Association, San Francisco, California, to establish a branch in Taipei, Taiwan, and that the Board would wait a reasonable time for receipt of any comments before taking action.

The letter to Chairman Robertson (Item No. 7) reporting on S. 2671, a bill to redefine the silver content in silver coins, was approved with the understanding that before the letter was transmitted, Mr. Cardon would check with Mr. Belin, General Counsel of the Treasury, to ascertain whether the latter had any comments.

Secretary's Note: Mr. Cardon subsequently ascertained that Mr. Belin had no comment. Accordingly, the letter was transmitted to Chairman Robertson.

Messrs. McClelland, Egertson, McClintock, and Poundstone withdrew at this point.

Research monograph on bank merger policy. There had been distributed a memorandum dated March 20, 1964, from the Banking Markets Unit, Division of Research and Statistics, concerning an attached research monograph entitled "A Comparative Analysis of Administrative Policy Under the Bank Merger Act of 1960" that had been prepared under contract for the Board of Governors by Professors George R. Hall of the University of Virginia and Charles R. Phillips, Jr., of Washington and Lee University. (Subsequent to the completion of the substance of the monograph, Mr. Hall became a full-time member of the staff of the Banking Markets Unit.)

The memorandum stated that Board staff members had made comments regarding facts, clarification, and interpretation but had not undertaken

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to influence the judgments reached by the authors. The aim of the study was to obtain a reasoned view of regulatory policy by academic economists specializing in antitrust policy and not involved in the specific cases analyzed.

It was recommended that copies of the monograph be distributed to interested members of the Board's staff, to the Federal Reserve Banks, and to the other agencies concerned with bank mergers. Since it was expected that outside scholars in this field would also be interested in the data assembled and the analysis presented, and since the work was believed to represent a more definitive source of information and a more balanced assessment of supervisory actions than other available outside studies, it was also recommended that in due course the Board undertake publication of the monograph. All distribution would be accompanied by a statement that the views expressed were the sole responsibility of Professors Hall and Phillips and did not necessarily represent the opinions of the Board.

In discussion, members of the Board expressed the view that the monograph was of good quality and represented an interesting analysis of the subject. The only suggestion made was that somewhat more prominence be given to the fact that the study was limited to the period May 13, 1960, through December 31, 1962.

On the matter of distribution, Chairman Martin suggested that the monograph be made available to those who might express a desire for

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it, but that its widespread distribution not be promoted by the Board. The reason for this suggestion was that the authors' conclusions tended to put the Board's merger decisions in a more favorable light than those of the other bank supervisory agencies. Therefore, although the authors' conclusions reflected their considered independent judgment, widespread distribution of the monograph by the Board might be misconstrued.

There followed discussion of possibilities for having the study published in some other manner, for example, by a fund or foundation, or through underwriting the cost to a private publisher. It was the consensus, however, that in the circumstances in which the study was prepared the appropriate procedure would be to identify the monograph to readers as a Board-sponsored document.

General agreement was indicated with a limitation of distribution for the reason suggested by Chairman Martin, and on this basis the issuance of the monograph was approved unanimously. This action included authorization for the resulting overexpenditure in the pertinent account of the Board's 1964 budget, in which no provision had been made for the cost involved.

It was indicated that there would be no objection to Mr. Shay's supplying copies of the monograph to Mr. Belin, General Counsel of the Treasury, for distribution to the members of the interagency committee concerned with bank merger policy as an item of background information.

Messrs. Shay, Holland, Goodman, and Smith (Research) withdrew at this point.

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Examination procedures (Items 8-12). On March 5, 1964, Messrs. Robertson and Larkin, Partners of Haskins & Sells, met with the Board for discussion of the firm's report dated December 20, 1963, based on its review of procedures followed by the Board's examiners in the examination of a Federal Reserve Bank.

Under date of March 31, 1964, Governor Shepardson distributed to the other members of the Board a memorandum making certain recommendations on examination procedures in the light of the report and the discussion thereof. His memorandum also included recommendations concerning future assignments to be given to Haskins & Sells and continuation of staff studies concerning the areas of responsibility of the several divisions of the Board's staff in relation to Reserve Bank activities. A copy of Governor Shepardson's memorandum is attached as Item No. 8. Also attached, as Item No. 9, is a copy of a draft of directive proposed to be given by the Board to the Division of Examinations relating to the examination of Federal Reserve Banks. This directive, which had been prepared by Haskins & Sells at the suggestion of Governor Shepardson, would supersede the directive to the Division approved May 3, 1951.

Governor Shepardson made certain comments at this meeting in supplementation of the material that he had distributed to the Board. The substance of his comments was as follows:

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I have reviewed my notes of the meeting of March 5, along with a transcript of notes taken by the Secretary's Office. I believe I have covered in my memorandum the recommendations in the Haskins & Sells report to which some exception was taken, together with the consensus at that time regarding those items. With the exceptions stated in my memorandum, I believe it would be in order to approve the report and let the Division of Examinations proceed with its implementation of the recommendations for changes in examination procedures. The Division is already in the process of doing this and has established a target date of about July 1. It would be commendable if the recommendations could be implemented by that time.

I also recommend that the Board authorize a change in format of the examination report, as suggested by Mr. Solomon, so as to combine the head office and branch sections.

On the matter of condensing the text of the total examination report, we have discussed how this might best be laid before the Board. I think Mr. Solomon is in agreement with me that the best way would be for him to prepare an abbreviated report along the lines he suggested, and along with it submit a copy of the full report as currently prepared in order that the Board may make a comparison.

There has seemed to be some problem in connection with the existing directive to the Division of Examinations. At my suggestion Mr. Robertson, after reviewing the whole situation, has prepared a draft of new directive that spells out a little more the distinction between audit-type activities and supervisory-type activities. It gets away from the question of operational audits, in line with Mr. Solomon's suggestion that this reference might be omitted. I think it is an appropriate form of directive, and I recommend that the Board adopt it.

I also asked Haskins & Sells to suggest what they might do most effectively this year by way of reviewing examination procedures. Mr. Robertson has stated that he did not feel it would be wise to spend Board money just to have Haskins & Sells go back and do the same kind of job as last year. He has suggested instead that this year the firm assist the Division of Examinations in any way the Division may desire in revising its operating manual for examiners and reviewing any problems the examiners may encounter. Then later in the year the firm would make a field review for the purpose of checking the extent

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to which the recommendations in the Haskins & Sells report have been implemented, along with any problems in connection therewith. I recommend that Haskins & Sells be given that kind of assignment and informed accordingly.

Also, the Board discussed a year or so ago the question of developing an over-all directive covering the Board's supervisory responsibility for the operations of the Federal Reserve Banks as implemented through its several staff divisions. At the present time there is no comprehensive document covering the various assignments or responsibilities. A staff committee has been working on the development of those assignments and bringing them up to date. It has discovered some areas where there are gaps, and there has been some difficulty within the committee in segregating staff duties and responsibilities. I think the new directive to the Division of Examinations may help to clarify the situation, and that the committee should go ahead and bring together material for an over-all directive. Mr. Robertson has said that he would be glad to have representatives of his firm work in helping to reconcile any problems that might develop. However, unless undue difficulty does develop, it would not be planned to call on Haskins & Sells for this purpose. If a need is found, I would like to come back to the Board and request authorization.

I also recommend that Haskins & Sells be given the assignment of auditing the Board's accounts for the year 1964.

Governor Mills said that he would approve the retention of Haskins & Sells for the purposes Governor Shepardson had outlined. The approach would seem in order. However, he was a little concerned about parts of the language of the proposed directive to the Division of Examinations. He noted that the draft directive stated that an examination would require careful review of the internal controls and audit procedures of the Reserve Bank and, with due regard to the effectiveness thereof, the application of examination procedures by the Division that would avoid excess work and undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit

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processes. In his opinion this was a rather dangerous instruction to give. Over a period of time it might invite laxity, and it raised a question as to who would determine what constituted excess work. In another paragraph of the draft directive, he noted that it was stated that the Division should investigate or review other related matters that the Board might direct or authorize it to cover, such as the development of information and opinions that would assist the Board in making an appraisal of management. He questioned whether this language was sufficiently specific. It seemed to him that it could result in curtailing procedures that provided the Board with information that it was interested in having. The directive to the Division of Examinations, it would appear to him, should include a more specific directive as to what was expected in the way of appraisal of the administrative capabilities at the Federal Reserve Bank and also compliance by the Bank with the statutes and the administrative regulations of the Board of Governors.

In discussion of these points, Governor Shepardson observed that the requirement for determining compliance was included in the final part of the third paragraph of the draft directive, and Governor Mills agreed. Governor Shepardson added that at the March 5 meeting there were comments about the desire of the Board to make sure that it had adequate information on discounts and advances and on member bank reserve accounts. This was intended to be covered by the language of the third paragraph of the directive, which directed the examiners to

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check on compliance by the management of the Reserve Bank with provisions of law, regulations of the Board of Governors, and other requirements affecting the Reserve Bank's finances and accounting, including financial relations with member banks.

Governor Mills inquired whether the Divisions of Examinations and Bank Operations considered the proposed directive specific and comprehensive enough to make sure that over a considerable period of time the examinations would be thorough and would cover all aspects with which the Board should be familiar.

Mr. Solomon commented, with regard to the reference in the draft directive to avoiding undue duplication, that this language was adapted from the existing directive. In the circumstances, he saw no real danger.

Governor Mills inquired whether this language was not superfluous, since examination procedures presumably recognized the desirability of avoiding undue duplication.

Governor Daane suggested that this thought reflected the overall Haskins & Sells approach, and Governor Shepardson replied that it was aimed at getting into the directive what the Division of Examinations was aiming at in terms of updating its examining approach. Mr. Solomon agreed that the language recognized the direction in which the Division was attempting to move. In that sense it did not present any great difficulty in terms of compliance by the Division or any real likelihood of weakening the examining results.

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Chairman Martin commented that he did not think the inclusion of the language would do any real harm. Therefore, he would be inclined to leave it in the directive even if it might be said to be only a reiteration of an implied general principle.

Mr. Solomon then commented, as to the areas of examination coverage, that this was a very difficult thing to spell out in any directive. If he had been writing the directive himself, possibly he would have left out in the third paragraph the reference to coverage of other requirements affecting the Reserve Bank's finances and accounting, including financial relations with member banks. There would seem to be some possibility of undue limitation in the use of such language. However, this did not concern him particularly because in the fifth paragraph there was recognition of the fact that a directive could not spell out areas of investigation in great detail. It implied that procedures had to be developed in terms of what the Board wanted in particular circumstances. It seemed to him that when the third and fifth paragraphs were read together, the language was not unreasonable. The directive did not purport to answer every question; no broad statement could be expected to answer all questions.

Governor Mills inquired as to the important changes in the proposed directive as compared with the existing directive, and Mr. Solomon said that the format had been changed substantially. However, he did not read the proposed directive as fundamentally different from

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the current directive except that it clarified that the examination procedures were not intended to embrace operational audits.

Mr. Farrell said that he could agree with Mr. Solomon's viewpoint. He went on to say that the language troublesome to Governor Mills in the fifth paragraph touched upon a problem that the staff committee had been dealing with for the better part of a year. It went to the question whether management could be appraised adequately except by appraising the efficiency of operations. The answer to that question was suggested in the sixth paragraph of the proposed directive. It was his hope that further deliberations by the staff committee in light of this change in the directive would result in answering Governor Mills' question as to what sort of reporting system could best be developed to insure the Board complete coverage of Federal Reserve Bank activities. An alternative possibility would be to turn the examiners loose and let them report on anything that came to their attention, recognizing that appraisal of management and the efficiency of operations involve matters of judgment and that the Board could get different points of view from the examiners and from other divisions, such as Bank Operations and Personnel Administration. He understood that the supplemental document envisaged by Governor Shepardson would attempt to outline the major areas of responsibility.

Governor Mills then said that, as he understood the general approach of Haskins & Sells, he felt that the firm had made a wise recommendation. The firm contemplated that if the examiners discovered

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something in a Bank's operations that was questionable they would advise the appropriate division, for example, Bank Operations, and not necessarily include the matter in the report of examination. Conversely, Bank Operations, as an example, would advise the examiners of anything that came to its attention that would fall in the field of the examiners. Thus there would be a distinction and not a blurring of the responsibilities of the two divisions. He would gather that what the Board had sought in the past with regard to administrative capabilities required observations by the Division of Examinations as regards individual persons, as well as observations on matters such as promotions that were contemplated and whether or not they seemed merited. This could touch upon operating procedures, but he felt it was largely a matter of appraising the individuals concerned.

Mr. Solomon said that this was his understanding. The Division of Examinations had assumed that this type of work would still be contemplated. In other words, the confidential section of the examination report would continue to be prepared for the Board's information.

Mr. Smith said that the examiners had always been conscious of the Board's general responsibilities and had endeavored to be alert to anything in a Federal Reserve Bank that would seem inconsistent with a level of performance that the Board would want. He did not refer here to the matter of cost--efficiency and economy--but questions such as whether a Reserve Bank was moving its work along in an orderly manner without undue accumulation of errors and backlogs. The examiners checked

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on whether there was proper follow-up on sticky items, whether the staff was adequate, and whether problems appeared to be developing that might affect morale within the Bank. These were kinds of things that in a general way the examiners tried to check while going through verification procedures and observing safeguards maintained in the Reserve Bank to protect the integrity and security of operations. If the examiners saw a problem in such areas, they would propose that the Board should learn about it. Under the proposed directive he assumed the Board would continue to want to be alerted to these things. It was indicated, however, that the examiners would bring such matters to the attention of the responsible division for follow-up rather than inserting them in the report of examination or discussing them with the Federal Reserve Bank.

Chairman Martin said he understood that that was what was intended. There should be no relaxation in any way, but there would be a procedural modification to try to get the most effective results.

Governor Shepardson said that in view of certain problems and questions that had come up in the past several months, he and Governor Mitchell had been working with Mr. Farrell on a program whereby the Division of Bank Operations would give greater attention to operating efficiency at the Federal Reserve Banks and provide the Board with more analysis of figures such as those contained in the functional expense reports. There was also the possibility of doing more in the way of field surveys than was being done at present.

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Then, too, Governor Shepardson said, a question had come up about overlapping and duplication in the research function. The Division of Examinations had paid little attention to research activities. Therefore, it had been suggested to the Research Division that it take more of a look at the research programs at the respective Reserve Banks. It was hoped by this means to develop a program to enable the Board to decide what it would contemplate as to the extent of supervisory coverage in terms of System research activities. Governor Shepardson also observed that the work of the Division of Personnel Administration had not extended to the area of commenting on the caliber of management of the Reserve Banks. Instead the Personnel Division had thus far undertaken responsibility principally for the supervision of personnel activity programs of various kinds. The staff committee had found, he continued, that there was no specific assignment for checking on the security forces of the Reserve Banks and their adequacy. There might likewise be other areas where gaps existed. The thought in providing a directive on the over-all coverage of staff responsibilities was to be sure that in every area of operations where responsibility should be exercised by the Board an assignment existed in broad terms.

Chairman Martin commented that he felt this involved real progress. He suggested that the Board adopt the recommendations of Governor Shepardson, including the proposed directive to the Division of Examinations, with the understanding, of course, that the Board might want to consider amending it from time to time in the light of developments.

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Thereupon, the recommendations contained in Governor Shepardson's memorandum of March 31, 1964, were approved unanimously. This action included approval of the proposed directive to the Division of Examinations concerning examinations of Federal Reserve Banks. (Attached Item No. 9)

Attached as Item No. 10 is a copy of the letter sent to the Chairmen and Presidents of all Federal Reserve Banks except Boston and Philadelphia on April 2, 1964, informing them that henceforth the reports of examination of Reserve Banks with branches would be consolidated and would not contain separate sections for each branch. Attached as Item No. 11 is a copy of a letter to Haskins & Sells dated April 6, 1964, requesting that the firm undertake an audit of the accounts of the Board of Governors for the year 1964. Attached as Item No. 12 is a copy of a letter to Haskins & Sells dated April 10, 1964, setting forth the assignment to the firm for 1964 for reviewing matters relevant to the examination of Federal Reserve Banks.

Messrs. Johnson and Connell withdrew at this point.

Banking situation in Alaska. At Chairman Martin's request, Mr. Solomon reported on an interagency meeting yesterday, chaired by Director Randall of the Federal Deposit Insurance Corporation, at which information was presented, on the basis of reports from the Office of Emergency Planning, concerning the extent of devastation in Alaska as a result of the recent earthquake, with particular focus on banking problems. It was reported at the meeting that the Federal Deposit Insurance Corporation and the Comptroller of the Currency were planning

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to send representatives to Alaska for first-hand study of the situation. Question had arisen regarding Federal Reserve participation, and Mr. Solomon thereafter discussed the matter with the Federal Reserve Bank of San Francisco, with the result that the Reserve Bank was preparing to send two men to Alaska, one a bank examiner and the other an officer of the Seattle Branch.

In further comments, Mr. Solomon described the Alaskan banking structure and reported his understanding that all of the banks had now reopened for business on at least a limited basis. He noted that conceivably there might be various requests for Federal Reserve assistance to the Alaskan banks, perhaps in the form of requests for loans, for suspension of reserve requirements, or for waiver of deficient reserve penalties. All such possibilities would be borne in mind by the Reserve Bank representatives who visited Alaska.

Chairman Martin commented that he had been in touch with President Swan and that the San Francisco Bank seemed alert to the possible ramifications of the situation.

Messrs. Brill, Hexter, and Furth withdrew at this point.

Securities reported missing by member bank. There had been distributed a memorandum from the Division of Examinations and the Legal Division dated March 31, 1964, regarding circumstances that had raised a question of possible involvement of the Federal Reserve Bank of Boston in the matter of certain securities reported missing by State Street

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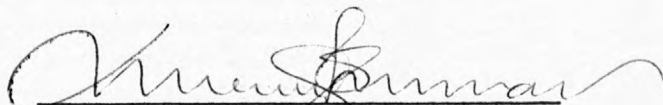
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Bank and Trust Company, a member bank of Boston, Massachusetts. Involved was a parcel of \$200,000 of U. S. Treasury notes issued by the Boston Reserve Bank on the basis of a wire transfer transaction originating at the New York Reserve Bank and sent by Brink's messenger, along with other parcels of U. S. Government securities, to the member bank in a sealed envelope. A week after the date of delivery, the member bank advised the Reserve Bank that the parcel of Treasury notes could not be located, but checks by the Fiscal Agency Department and the Audit Department had proved unavailing. At the request of the Board's staff, a full report was submitted by the General Auditor of the Reserve Bank and had been placed in the Board's files.

The recommendation in the memorandum was that there be transmitted to the Department of Justice, in the manner that reports of possible criminal violations involving State member banks are customarily transmitted, a copy of a letter of March 11, 1964, from the Boston Reserve Bank to the United States Attorney at Boston reporting a possible violation of the Federal banking laws at State Street Bank and Trust Company.

After discussion, it was agreed that the letter should be forwarded as recommended in the memorandum.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
4/1/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1964

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank in the vicinity of Hawthorne Avenue between Carson Street and Sepulveda Boulevard, Torrance, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1964



Board of Directors,
Quincy Trust Company,
Quincy, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Quincy Trust Company, Quincy, Massachusetts, of a branch at 302 North Main Street, Randolph, Massachusetts, provided the branch is established within six months from the date of this letter, and provided, further, that the common capital stock of the bank is increased to not less than \$400,000 prior to or concurrent with the establishment of the branch, in order to comply with the applicable Federal statute.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
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.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
4/1/64

OFFICE OF THE CHAIRMAN

April 1, 1964

Honorable Dante B. Fascell, Chairman,
Legal and Monetary Affairs Subcommittee
of the Committee on Government Operations,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

Reference is made to your letter of March 2, 1964, regarding increased charges for reports of examinations of national and District of Columbia banks (hereinafter all referred to as national banks), acquired by the Federal Reserve Banks from the Office of the Comptroller of the Currency, which became effective July 1, 1962.

Under the new schedule the charges for single copies of commercial, trust, and separate branch reports of national banks are \$100, \$50, and \$25, respectively, whereas under the old schedule the charge was \$10 for single copies of commercial reports and, with a few exceptions, \$5 for single copies of trust and separate branch reports. Formerly, second copies of reports were obtained for use of various Reserve Bank branches at 50 per cent of the cost of a first copy, whereas under the new schedule second copies are not furnished to the Reserve Banks. The following table shows the number and cost of reports acquired by the Reserve Banks during each of the years 1961, 1962, and 1963.

	1961		1-1-62 to 6-30-62		6-1-62 to 12-31-62		1963	
	No.	Cost	No.	Cost	No.	Cost	No.	Cost
Commercial								
1st copy	6,543	\$65,439	3,775	\$37,750	1,757	\$175,700	4,571	\$457,100
2nd copy	841	4,205	514	2,570	-	-	-	-
Subtotal	<u>7,384</u>	<u>\$69,644</u>	<u>4,289</u>	<u>\$40,320</u>	<u>1,757</u>	<u>\$175,700</u>	<u>4,571</u>	<u>\$457,100</u>
Trust								
1st copy	615	3,275	381	1,905	9	450	46	2,300
2nd copy	44	78	33	75	-	-	-	-
Subtotal	<u>659</u>	<u>\$ 3,353</u>	<u>414</u>	<u>\$ 1,980</u>	<u>9</u>	<u>\$ 450</u>	<u>46</u>	<u>\$ 2,300</u>
Branch								
1st copy	48	315	25	160	-	-	-	-
2nd copy	14	70	7	35	-	-	-	-
Subtotal	<u>62</u>	<u>\$ 385</u>	<u>32</u>	<u>\$ 195</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Totals	<u>8,105</u>	<u>\$73,382</u>	<u>4,735</u>	<u>\$42,495</u>	<u>1,766</u>	<u>\$176,150</u>	<u>4,617</u>	<u>\$459,400</u>

Honorable Dante B. Fascell

-2-

As will be noted, because of the increased charges the Federal Reserve Banks obtained fewer reports in 1963 than in 1961, before the new schedule of charges was promulgated.

There is a wide variation in the number of pages in reports of examination of national banks, both with respect to their commercial and trust departments, depending on the general condition of the bank and the scope and volume of its operations. However, it is estimated that the average commercial report contains approximately 50 pages and the average trust or separately bound branch report about 20 pages. The pages in the three types of reports are 9-1/2 inches wide and 14-3/4 inches long.

Estimates as to the cost of duplicating copies of reports of examination if the originals or copies were loaned for that purpose vary rather widely based on the process used. The total number of pages in reports acquired in 1963 was about 230,000. It is roughly estimated that at the Board these pages could have been xeroxed at \$7.00 per hundred and photostated at \$16.00 per hundred, including the salary of an operator, the rental and/or depreciation of equipment, and the cost of supplies, or at a total annual cost of approximately \$16,100 and \$36,800, respectively. It also is roughly estimated that the reports acquired in 1961, aggregating about 384,000 pages, could have been xeroxed at \$6.50 per hundred and photostated at \$15.50 per hundred, including the salary of an operator, the rental and/or depreciation of equipment, and the cost of supplies, or a total annual cost of approximately \$25,000 and \$59,500, respectively. Under either the xerox or photostat process, the thickness of individual reports would be appreciably greater and, consequently, the cost of storage space would be increased. If each of the Reserve Banks were to undertake reproduction of the reports which it requires, it is reasonable to assume that costs would be somewhat higher.

The question of increased charges for copies of reports of examination of national banks acquired by the Reserve Banks was the subject of discussion and correspondence between the Office of the Comptroller of the Currency and the Board of Governors for approximately five months prior to the adoption of the new schedule of charges. As requested in your letter, there are enclosed copies of the following pertinent memoranda and correspondence relating to the matter:

1. Memorandum with enclosures, dated February 8, 1962, signed by Comptroller of the Currency James J. Saxon, hand delivered to Governor J. L. Robertson, Board of Governors of the Federal Reserve System.
2. Letter to Comptroller of the Currency James J. Saxon, dated February 27, 1962, signed by Governor J. L. Robertson, Board of Governors of the Federal Reserve System.

Honorable Dante B. Fascell

-3-

3. Letter to the Board of Governors of the Federal Reserve System with enclosures, dated March 6, 1962, signed by Comptroller of the Currency James J. Saxon.
4. Letter to the Board of Governors of the Federal Reserve System with enclosure, dated March 16, 1962, signed by Comptroller of the Currency James J. Saxon.
5. Letter to Comptroller of the Currency James J. Saxon, dated April 9, 1962, signed by Chairman Wm. McC. Martin, Jr., Board of Governors of the Federal Reserve System.
6. Letter to the Board of Governors of the Federal Reserve System, dated April 30, 1962, signed by Comptroller of the Currency James J. Saxon.
7. Letter to Comptroller of the Currency James J. Saxon, dated May 9, 1962, signed by Chairman Wm. McC. Martin, Jr., Board of Governors of the Federal Reserve System.
8. Letter to Comptroller of the Currency James J. Saxon, dated June 27, 1962, signed by Chairman Wm. McC. Martin, Jr., Board of Governors of the Federal Reserve System.
9. Memorandum to the Presidents of all Federal Reserve Banks, dated June 27, 1962, signed by Comptroller of the Currency James J. Saxon.

Paragraph 8, Section 4 of the Federal Reserve Act, reads in part as follows:

"....Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information...."

Reports of examination of national banks also are a source of information that is essential to the Board and the Reserve Banks in the discharge of responsibilities under provisions of laws and regulations relating, among other things, to branches, mergers, bank holding companies, acceptance powers, reserves against deposits, and interlocking relationships of bank officers and directors.

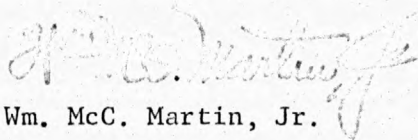
There is no provision of law which specifically directs the Comptroller of the Currency to furnish or otherwise make available to the Board of Governors reports of examination of national banks. Information that is essential to the Reserve Banks and the Board could be obtained by conducting examinations of national banks under authority granted by Section 5240, U.S.R.S., and Section 11(a) of the Federal Reserve Act (12 U.S.C. 483 and 248(a)). However, this would result in duplication of examinations of such banks and would be a substantially more expensive means of obtaining information than the use of reports of examinations conducted by national bank examiners employed by the Comptroller of the Currency.

Answers to your questions numbered 5 and 6, to the extent we have the information, will be found in the memorandum and correspondence submitted with this letter. Particular attention is called to the Board's letter to the Comptroller, dated June 27, 1962, accepting the new charges until further notice, and specifically to the following comment:

"The statements in your April 30 letter do not provide the Board with an adequate basis for determining your cost of preparing and transmitting the extra copies of reports furnished to the Reserve Banks. The new charges far exceed the cost which would be incurred by a Federal Reserve Bank in preparing an extra copy of a report of examination of a State member bank. However, the Board notes that your letter indicates that the new schedule of charges has not 'taken into account any of the cost of conducting the actual examination.'" (Underscoring in Comptroller's letter.)

From a basic accounting standpoint, the Comptroller's higher charges for reports of examination of national banks have the effect of reducing the Reserve Banks' annual payments to the United States Treasury.

Sincerely yours,


Wm. McC. Martin, Jr.

Enclosures



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 4
4/1/64

OFFICE OF THE CHAIRMAN

April 1, 1964

The Honorable Joseph W. Barr,
Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

The Board has under consideration proposals for the relaxation of its practices with respect to the release of reports on the competitive factors involved in connection with applications under the Bank Merger Act of 1960.

The matter arises from the requests received by the Board from time to time for copies of the reports on competitive factors to the Board from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice, and also the reports on competitive factors by the Board to the other two Federal bank supervisory agencies. Most of the requests have been received from the banks involved in a particular merger proposal and from persons at colleges and universities who are studying the problem, although from time to time requests have been received also from both Congressional sources and State bank supervisors who have an interest in a particular application.

In general, the Board has adhered to the practice of not releasing copies of reports by it to either of the other Federal banking agencies unless the report has otherwise been made public. At the time of making each such report, the Board sends a copy thereof to the Department of Justice. With respect to reports to the Board, the Board's practice has usually been to release copies of the reports, after informal clearance with the reporting agencies, only where a public proceeding has been scheduled in connection with the merger application involved. Following such clearance, the reports were released in one case to an interested State bank supervisory agency and in another to a college professor.

The proposals being considered by the Board are as follows:

The Honorable Joseph W. Barr -2-

(1) Upon receipt of a report to the Board on competitive factors from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice with respect to a merger application, copies would be forwarded by the Board promptly to the applicant and would be supplied to anyone on request; and

(2) Following the mailing of a report by the Board on competitive factors in connection with a merger application pending before either of the other two banking agencies, the Board would supply copies of such report to anyone on request.

Recently the Board's staff has had informal discussions of this matter with members of your staff, and it was also discussed at the meeting on March 25 of the inter-agency committee on bank mergers.

For its assistance in considering whether to adopt the proposals, the Board would welcome any comments or suggestions you may wish to offer with respect thereto. The Board would appreciate receipt of any views you may wish to submit at your early convenience.

Similar letters are being mailed today to the Comptroller of the Currency and the Department of Justice.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
4/1/64

OFFICE OF THE CHAIRMAN

April 1, 1964

The Honorable C. Douglas Dillon,
Secretary of the Treasury,
Washington, D. C. 20220

Dear Mr. Secretary:

Enclosed is a copy of a letter of today's date to the Comptroller of the Currency concerning proposals which the Board has under consideration for the relaxation of its practices with respect to the release of reports on the competitive factors involved in connection with applications under the Bank Merger Act of 1960. As the enclosed letter indicates, similar letters are being mailed to the Federal Deposit Insurance Corporation and the Department of Justice. You will note also that the letter relates to a subject that has been discussed by the inter-agency bank merger committee chaired by Mr. Belin.

If you should wish to make any comments concerning the matter, your views would be appreciated.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1116
4/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 1964

The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Building,
Washington, D. C. 20220.

Dear Mr. Comptroller:

Reference is made to Mr. Faulstich's letter of February 26, 1964, regarding the Board's letters of February 6 and 10, 1964, relating to applications of a Corporation, operating under the Board's Regulation K and owned by a national bank, for consent to acquire stock in two foreign companies. These letters were sent to your Office pursuant to established procedures on the assumption that your Office would wish to be currently informed concerning such applications and have an opportunity to comment on them.

Mr. Faulstich stated:

"An intelligent evaluation of the merits of such applications, as well as of applications to establish foreign branches, presumes, contrary to the fact, that this Office has before it not only the complete detail of the proposal itself but also that we have a working knowledge of your agency's policies and standards for consideration of such applications.

"Under these circumstances comment by this Office is inappropriate.

"It would be helpful to some understanding of your agency's thinking in this area if we were provided with documents, presumably made available to any bank considering an application, which set forth application procedures, instructions, requirements, forms, guidelines, as well as policies and standards, if any."

Until October 1963, your Office had responded to many such communications from the Board. However, from October 23 to December 16, 1963, the Board wrote your Office with respect to six applications for foreign branches submitted by four national banks.

The Honorable James J. Saxon -2-

and an application by another national bank to organize a Corporation under Regulation K; to date no reply has been received to any of the seven letters. Except for the reference in Mr. Faulstich's letter, there has never been any intimation that your Office would desire additional information with respect to any of these matters.

From frequent staff contact it has seemed to the Board reasonable to believe that your Office was familiar with the policies of the Board with respect to the consideration and granting of authority in such matters. However, it may be helpful to summarize briefly the Board's policies.

In granting permission to member banks to establish foreign branches under section 25 of the Federal Reserve Act, the Board necessarily is guided by the statutory policy that such branches may be established "for the furtherance of the foreign commerce of the United States."

There are only five national banks and five State member banks with overseas branches. All ten, except one national bank, are among the largest banks in the world. All of the national banks are institutions regarding which your Office, as well as the Board of Governors and the respective Reserve Banks, is well informed. Accordingly, instead of a specific form of application to be filled out in great detail, member banks, both national and State, are merely requested to furnish information in summary form regarding reasons for establishment, need for banking facilities, prospects for profitable operations, nature and volume of business expected, and investment in banking quarters.

Where a national bank merely desires to establish an additional branch in a country where it already has one or more branches, the Board's Regulation M, effective August 1, 1963, only requires 30 days' notice, unless otherwise advised by the Board. (This is similar to the procedure that Regulation H provides for the establishment of such branches by State member banks.) With respect to all other applications of national banks to establish overseas branches, the Board has been inviting comments of your Office and has furnished a copy of the letter of application.

With respect to stock investments by Corporations owned by national banks and operating under the provisions of the Board's Regulation K, the Board has invited comments from your Office where major interests were being acquired in foreign banks or where the transactions were especially large or significant. The data required by section 211.8(d) of Regulation K indicates the general type of information considered relevant in such cases. The Board has followed the practice of furnishing your Office with a copy of such letters of application.

The Honorable James J. Saxon -3-

Your views regarding such proposals have been and still are desired, particularly in those cases where you may know of any reasons why the applications should not be approved. Accordingly, the Board would propose to continue to invite your comments on applications as received from time to time from national banks to establish branches in new foreign countries or from subsidiary corporations, operating under Regulation K and owned by national banks, to make substantial stock investments in foreign companies.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
4/1/64



OFFICE OF THE CHAIRMAN

April 1, 1964

The Honorable A. Willis Robertson,
Chairman, Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510.

Dear Mr. Chairman:

You have asked for the comments of the Board of Governors of the Federal Reserve System on S. 2671, a bill to redefine the silver content in silver coins. The bill would change the ratio of silver to copper in silver dollars, half dollars, quarters, and dimes, from 9-to-1, as now provided, to 8-to-2. Today, Treasury sales of silver at the present monetary value of the silver in a silver dollar (approximately \$1.29 an ounce) in effect constitute a ceiling on the market price of the metal. By raising the monetary value of the silver in a silver dollar to approximately \$1.45 an ounce, the bill would pose serious problems for the Government in its efforts to supply sufficient quantities of coin for public use.

There is a chronic, serious coin shortage in this country and there is little prospect that the situation will improve until the new mint to be constructed in Philadelphia begins production. The extent of this shortage may be illustrated by excerpts from letters received from each of the twelve Federal Reserve Banks at the end of last year, in response to a request for a report on the situation:

Federal Reserve Bank of Boston: "In summary, the need for additional coin of all denominations is now more acute than at any previous time."

Federal Reserve Bank of New York: "Since April of 1962 we have had to ration almost continuously one or more denominations of coin."

Federal Reserve Bank of Philadelphia: "On December 4, 1963, our inventory of nickels was about 3 per cent of the minimum requirements, and cents were about 6 per cent. As we see it, it is going to take the continued effort of the Mint to bring about some improvement in supply. The demand for coin has not leveled off, but is increasing each day."

Federal Reserve Bank of Cleveland: "The coin supply situation in the Fourth District currently is worse than it ever has been. Estimates suggest that we have been able to supply banks with only about three-fourths of their normal needs since early November."

Federal Reserve Bank of Richmond: "Since June 1963, it has been necessary to ration all denominations of coin."

Federal Reserve Bank of Atlanta: "The inconvenience caused by shortages of coin supplies at our head office and our branches at Birmingham, Jacksonville, and New Orleans became more acute in the period January through November 1963, as compared with the same period in 1962. The situation has reached a critical point in all zones except that served by the Nashville Branch. The Nashville Branch experienced its first rationing (cents) in late November this year."

Federal Reserve Bank of Chicago: "In spite of an increase of 52 per cent in shipments received from the Mint, we have been unable to meet the demands of member banks for coin. In November and December 1962, the degree of rationing was intensified and since May 1963, except for brief periods immediately following Mint receipts, rationing in all denominations has been continuous."

Federal Reserve Bank of St. Louis: "St. Louis has been rationing pennies, nickels, and quarters for the past seven months, and severe and constant rationing of all denominations has occurred since October 1."

Federal Reserve Bank of Minneapolis: "We have not had occasion to ration coin to the extent that the practice has apparently been necessary in other Districts. However, we have been rationing since last July and, except for very brief periods, rationing has been a daily occurrence in at least some denominations. Our coin supply reached the lowest point in many years on December 4, on which date we were completely out of nickels. A day or two previously we had been completely out of quarters."

Federal Reserve Bank of Kansas City: "Because of the short supply, it has been necessary to ration all denominations throughout 1963 on an even more stringent basis than in 1962, and we are currently rationing coin on a basis of approximately 5 to 10 per cent of the amount ordered in the case of large city banks and 25 per cent for country banks. The most acute shortage in the past has been in nickels and pennies, but this recently extended to dimes and to some extent to quarters."

The Honorable A. Willis Robertson -3-

Federal Reserve Bank of Dallas: "Our coin inventory has been lower all year than current demands indicate desirable and we have been rationing nickels since June. While our District is probably in better position than most others, in our opinion the coin situation warrants immediate and drastic action."

Federal Reserve Bank of San Francisco: "Continuing shortages exist in cents, nickels, and dimes, and the possibility exists that a shortage of quarters will develop later this month. Demand for coin continues heavy and rationing is necessary to provide equitable distribution of existing stocks."

Section 2 of last year's legislation authorizing replacement of silver certificates with Federal Reserve notes (Public Law 88-36) prohibits Treasury sales of silver unless the market price exceeds the monetary value. The immediate effect of S. 2671, therefore, would be to stop Treasury sales of silver bullion to silver users, and, since consumption of silver far exceeds production, the cessation of Treasury sales presumably would be accompanied by a rise in market price. A rise of only a few cents in the current market price would make it attractive to sell for their bullion content the 460-odd million of silver dollars now outstanding, and a rise to the monetary value fixed by S. 2671 would tend to drive out of circulation a substantial part of the approximately \$1.9 billion of subsidiary silver coins now circulating. This would result from the fact that under those conditions, not only would the silver in a silver dollar be worth more than a dollar, but the silver in a half dollar would be worth more than fifty cents, and so on down the line.

Debates on the floor of both the Senate and the House of Representatives indicate that one of the principal arguments in behalf of S. 2671 is that it would enable the Treasury to coin additional silver dollars and put them in circulation without running the risk of having them melted down for the silver in them. In the Board's judgment, a higher priority should be assigned to the task of minting enough subsidiary silver and minor coins to satisfy the urgent needs for these coins in all parts of the country. Granting that people in certain sections of the country prefer silver dollars to paper dollars, at least they have the alternative of using paper dollars, which are available in any quantity that is needed. But the Federal Reserve Banks in all sections of the country are unable to satisfy today's demand for subsidiary silver and minor coins, and are forced to ration the supplies they have. Even with rationing, the supplies of some coins have been at times exhausted at some Reserve Banks. Unlike the man who prefers a silver dollar but can use a paper one, a man who has no dime for a parking meter is out of luck. Our first concern, therefore, should be with increasing supplies of coins other than silver dollars, and this will require use of the entire production of the present mint facilities for at least the next two years.

The Honorable A. Willis Robertson -4-

It may well be that some change must be made within the next few years in the content of our coins, in view of long-range trends in the silver market. But time is needed for thorough consideration of any such change, and, fortunately, time is available. Existing Treasury silver stocks seem ample to assure against any rise in the market price of silver for some time to come. If our coins are to be changed, consideration should be given to using other metals or materials as well as to changing the silver-copper ratio. And it would seem preferable to make a more fundamental change than that provided in S. 2671, so as to avoid any possibility of having to make another change a few years later. Finally, it would seem wiser to make the change after mint capacity has been increased, so that the change could be made with a minimum of disturbance. It would be highly desirable to devise means of building up some inventory of the new coins (whatever they may be made of) before the change is made, so that they can be put into circulation in abundant supply. Any change in the composition of coins will stimulate collectors' interest in those that have been discontinued. Therefore, it seems likely that a part of the supply of coins existing at the time of change would disappear from circulation and that a very serious coin shortage would develop if a large supply of the replacement coins were not readily available.

One step your Committee may wish to consider to help alleviate the serious coin shortage that now exists would be to authorize the Treasury Department to discontinue the practice of changing each year's mintage date. This procedure results in coins of previous years being quoted at higher and higher premiums as they grow older, and consequently more and more of them are withdrawn from circulation by collectors. Fears with respect to the new Kennedy halves serve to illustrate this point. It is understood present plans call for minting 90 million of these coins in 1964. If the date on the new coins is then changed, the first year's issue will be at a much higher premium--and disappear from circulation much faster--than if the public knew the date on these coins would remain unchanged for several years.

Sincerely yours,

Wm. McC. Martin, Jr.
Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

1123

Item No. 8
4/1/64

Date March 31, 1964

Office Correspondence

To Board Members

Subject: Supervision and Examination of

From Governor Shepardson

Federal Reserve Banks

On March 5, 1964 Mr. Robertson, of Haskins and Sells, presented the report of their review of the Board's procedures in its examination of Federal Reserve Banks and Mr. Solomon presented his comments on the report.

In the ensuing discussion the Board indicated tentative acceptance of the report and the specific suggestions listed in the appendix thereof with the following exceptions:

1. Page 3 - Cash - It was agreed that piece counting of new currency, as suggested, was unnecessary.
2. Page 4 - Custody Department - Suggestion for checking less than 10 per cent of securities was considered feasible for confirmation but not for inspection.
3. Page 4 - Emergency Relocation Center - Continuation of present assignment of responsibility was considered preferable.
4. Page 5 - Expense Review - Because of the sensitivity of certain types of expenditures, it was agreed that all expenditures should be checked as to proper classification and expenditures in sensitive areas should be checked as to propriety but that further verification might well be done on a sample basis appropriate to accepted audit procedures.

I recommend that:

1. the report be approved and the Division instructed to proceed with implementation of the recommendations therein with the exceptions noted above,
2. the Division be authorized to proceed with a combined report of head office and branch examinations as proposed in Mr. Solomon's memorandum,
3. Mr. Solomon be authorized to prepare an abbreviated examination report with such deletions and condensations as he deems appropriate together with a supplement showing material deleted from the present report for the Board's future consideration in determining the desired content of the report,

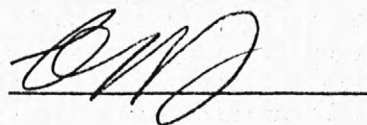
To Board Members

4. the Board approve the attached draft of a new directive designed to implement the above recommendations, to more clearly delineate the distinction between financial and supervisory audits and to clarify interdivisional responsibilities in the Board's overall supervision of Reserve Banks.

I further recommend that Haskins and Sells be given an assignment for further "Review of Procedures of Board's Examiners in the Examination of a Federal Reserve Bank" in 1964 along the lines proposed under that heading in their letter of March 26, 1964 (attached).

I also recommend that the staff continue the study started last year of the areas of supervisory responsibility of the several Divisions with a view to developing an overall supervisory directive that will update existing directives, eliminate unnecessary overlaps, and close existing gaps in present assignments in addition to those covered by the proposed directive to the Division of Examinations. With the adoption of the proposed directive, I would expect that problems encountered in this study last year would be eliminated and that it should be completed without further difficulty. Should it later seem desirable to call on Haskins and Sells for assistance in the development of such an overall directive, as suggested in their letter of March 26 under the heading, "Instructions to the Divisions," I shall request appropriate authorization at that time.

Finally, I recommend that Haskins and Sells be given the assignment of auditing the Board's accounts for the year 1964 as proposed in the last paragraph of their letter of March 26, 1964.



DRAFTItem No. 9
4/1/64

DIVISION OF EXAMINATIONS

EXAMINATIONS OF FEDERAL RESERVE BANKS

1. The examination of a Federal Reserve Bank by the Division of Examinations shall be so conducted as to enable the Division to develop an informed opinion as to the financial condition of the Reserve Bank as of the date of the examination and the fair presentation of its income and expenses for the intervening period since the previous examination.

2. The examination should be made in conformity with generally accepted auditing standards, and accordingly should include such tests of the accounting records and such other auditing procedures as the Division considers necessary in the circumstances.

3. An examination of this kind would require careful review of the internal controls and audit procedures of the Reserve Bank, and with due regard to the effectiveness thereof, the application of examination procedures by the Division that would avoid excess work and undue duplication of effective and acceptable verifications made through the Reserve Bank's own audit processes. Such an examination would cover, among other things, (1) verification (using appropriate testing procedures where applicable) of assets and liabilities, including liabilities as custodian, (2) proper discharge by the Reserve Bank of its responsibilities as Fiscal Agent of the United States, and (3) compliance by the management of the Reserve Bank with provisions of law, regulations of the Board of Governors, and other requirements affecting the Reserve Bank's finances and accounting, including financial relations with member banks.

4. The examination procedures referred to above should be appropriately extended whenever this should be necessary to meet the Board's need for additional examination assurance with respect to certain classes of transactions or other matters, such as the examination of additional disbursement vouchers where this is considered necessary to provide the assurance required that a Reserve Bank's expenditures conform to Board policy.

5. In addition, the Division should investigate or review other related matters the Board may direct or authorize it to cover, such as the development of information and opinions that would assist the Board in making an appraisal of management.

-2-

6. The Board considers the work of the several divisions as a coordinated activity in assisting the Board to discharge its responsibilities in examining Reserve Banks and in exercising general supervision over them. This requires cooperation among the divisions to the end that (1) the work of one division does not duplicate or conflict with that of other divisions, and (2) information coming to the attention of one division, of significant value to other divisions, is brought to their attention. Therefore, any information coming to the attention of the Division of Examinations or observed by it, having to do with operating efficiency and not involving fiscal integrity or compliance with laws, regulations, or other requirements, should not be taken up with the Reserve Banks, but, if significant, should be reported as promptly as the situation may require to the appropriate divisions of the Board's staff.

7. The Division should make a report to the Board following each examination of a Reserve Bank. The report should indicate the Division's opinion as to the financial condition of the Reserve Bank as of the date of the examination and the fair presentation of its income and expenses for the intervening period since the previous examination. The report should also contain such additional information as may be necessary to properly inform the Board concerning the results of the examination.

(As approved at this meeting of the Board)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
4/1/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 2, 1964.



Dear Sir:

The purpose of this letter is to inform you of a change in reporting procedures which the Board has approved for adoption by the Division of Examinations with respect to examinations of Federal Reserve Banks.

Heretofore, the report of examination of a Federal Reserve Bank with branches has been divided into a main section, and a separate section for each branch office. The main section was designed to provide the Board of Governors and (by furnishing copies of the report) the Chairman and President of the Reserve Bank information concerning the accounts, operations, and affairs of the Reserve Bank at all of its offices. The branch sections were prepared primarily to convey the examination findings regarding an individual office to the management of that office, and except that they have been restricted to the accounts and operations of the particular branch, each such section has substantially duplicated the main section.

The Division of Examinations has recently been reviewing its reporting procedures with a view of eliminating extraneous material and being more discriminating with respect to the report contents, all for the purpose of making the report a more readable and useful document for the purposes it is intended to serve. Henceforth, therefore, the branch sections of the report as they have previously been prepared will be discontinued. In their place, relatively brief letter reports will be submitted to the branch managements, and copies of such letter reports will be attached to the report proper, as part of the Appendix section.

Since this change in report style is a departure from a practice of long standing, it was thought that this outline of the nature of and reasons for the change might be of interest to you.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE CHAIRMEN AND PRESIDENTS
OF ALL FEDERAL RESERVE BANKS
EXCEPT BOSTON AND PHILADELPHIA.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 11
4/1/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 6, 1964.

Haskins and Sells,
1000 Connecticut Avenue, N. W.,
Washington 6, D. C.

Gentlemen:

It is requested that your firm undertake, as promptly after January 1, 1965, as is convenient, an audit of the books and accounts of the Board of Governors of the Federal Reserve System for the year 1964.

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

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Item No. 12
4/1/64

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 10, 1964.

Haskins and Sells,
1000 Connecticut Avenue, N. W.,
Washington 6, D. C.

Gentlemen:

During the latter part of 1963 you conducted a review of the procedures followed by the Board's examiners in the examination of Federal Reserve Banks and submitted a report of findings and recommendations under date of December 20, 1963.

Thereafter, informal discussions between representatives of your firm and the Board were held to discuss the desirability of securing your cooperation in working out certain revised programs on the basis of the recommendations contained in that report, and in undertaking a further review of examination procedures.

In your letter of March 26, 1964, you submitted proposals for accomplishing these objectives, the proposals being outlined in your letter under the subtitle "Review of Procedures of Board's Examiners in Examination of a Federal Reserve Bank." The Board has reviewed those proposals and has approved an arrangement under which your firm would assist the Division of Examinations during the current year in reviewing and revising its programs and procedures, and later in the year would visit one of the Reserve Banks during the course of an examination thereof by the Division, such assistance and visit to be along the lines proposed under that subtitle of your letter. It is understood that the charge to the Board for such services will be based upon your regular fee rates.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.