Minutes for April 24, 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
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Minutes of the Board of Governors of the Federal Reserve System

on Friday, April 24, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Gemmill, Economist, Division of International Finance

Economic review. There were distributed a table on U. S. capital flows and data relating to monetary developments in the four-week period ended April 22, 1964.

Mr. Axilrod reported on recent developments in the Government securities market, after which Mr. Partee commented on bank reserves, bank credit, and the money supply. Mr. Gemmill then discussed recent foreign
exchange market developments and the capital flows table that had been distributed.

Following discussion based on those reports, all of the members of the staff except Messrs. Sherman, Kenyon, Fauver, and Spencer withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Hricko, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Ratification of actions. Actions taken by the available members of the Board at the meetings held on Tuesday, April 21, 1964, and Wednesday, April 22, 1964, as recorded in the minutes of those meetings, were ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Kansas City, and Dallas on April 23, 1964, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Letter to Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, approving the establishment of a branch in Natick.  

Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch at 2210 Military Road, Town of Niagara.  

Letter to The Marine Trust Company of Western New York, Buffalo, New York, approving the establishment of a branch at 4381 Military Road, Town of Niagara, with the understanding that the bank's capital structure was to be increased.  

Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in the San Ramon Village Shopping Center, Alameda County.  

Letter to Bamerical International Financial Corporation, New York, New York, granting consent to the purchase of shares of Promotora de Inversiones, S. A., Barcelona, Spain, in excess of 10 per cent of Bamerical's capital and surplus.  

Letter to Counsel for Peoples Trust & Savings Bank, Green Bay, Wisconsin, responding to a request for a copy of the Board's report to the Federal Deposit Insurance Corporation on the competitive factors involved in the bank's proposed acquisition of assets and assumption of liabilities of Bank of Green Bay, Green Bay, Wisconsin.  

With respect to Item No. 1, Governor Mills pointed out that Newton-Waltham Bank was a subsidiary of Baystate Corporation and that the proposed establishment of the Natick branch by the bank was, in effect, a penetration by the holding company into a new area of Massachusetts. In this connection, he inquired whether the Federal Reserve Bank of Boston should have some indication from the Board that it should follow more closely the trend of bank holding company expansion in the State.
Mr. Leavitt, responding to Governor Mills' comment, noted that the Reserve Bank memorandum on the branch application recognized the holding company's majority interest in the Newton-Waltham Bank.

In connection with Item No. 4, it was noted that the application of Wells Fargo Bank for a branch in the San Ramon Village Shopping Center, Alameda County, had been protested by Mr. Harry J. Harding, President of The First National Bank of Pleasanton, which was operating a trailer branch in the area, as mentioned at the Board meeting on April 3, 1964.

Mr. Leavitt indicated that the views presented by Mr. Harding had been studied closely. However, it appeared that Mr. Harding's branch was not providing the community with adequate banking facilities, and it was concluded by the Division that the Pleasanton bank should not be insulated from competition.

In connection with Item No. 6, Governor Mills commented that he would favor complying with the request of Counsel for Peoples Trust & Savings Bank for a copy of the Board's report on competitive factors because release of the report in this instance would come after, rather than prior to, the Federal Deposit Insurance Corporation's adverse decision on the application involved.

On the general subject of release of reports on competitive factors, Mr. Shay stated that a letter expressing the views of the Department of Justice on the Board's tentative proposal had been received. In addition, he had discussed the matter informally with representatives of the Federal
Deposit Insurance Corporation, and he expected the Board would hear from the Corporation rather soon. No word had yet been received from the Comptroller of the Currency.

Report on competitive factors (Fords-Woodbridge, New Jersey).
There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Woodbridge National Bank, Woodbridge, New Jersey, with and into First Bank and Trust Company, National Association, Fords, New Jersey.

During discussion, a change in the conclusion was agreed upon, after which the report was approved unanimously for transmittal to the Comptroller. The conclusion in the report, as approved, read as follows:

Prior to the recent acquisition of approximately 97 per cent of outstanding stock of Woodbridge National Bank by an individual who represents the controlling interest in First Bank and Trust Company, a significant amount of competition existed between these two banks. So long as this common ownership exists, there is little potential for competition between the two banks. Consummation of the proposal would forever foreclose any potential for competition and would deny residents of the area an alternative source of banking service. The competitive aspects of the proposed merger are clearly adverse.

Report on competitive factors (Charleston-Darlington, South Carolina). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Citizens Bank of Darlington, Darlington, South Carolina, into The Citizens and Southern National Bank of South Carolina, Charleston, South Carolina.
During discussion, Governor Mitchell noted a reservation as to the wording of the part of the report's conclusion that stated that the merger would represent a further step toward concentration of banking resources in South Carolina. He had expressed a similar view on a competitive factor report considered at the Board meeting on April 15, 1964, because such wording conveyed the impression that an extension of services over a broader area of South Carolina by Citizens would be undesirable and not in the public interest. In his opinion, if the bank developed further, this might be helpful from the standpoint of the State's economy. However, his had been a minority view.

Governor Mills suggested that a future report on a somewhat similar situation might use wording, as a variation of expression, to the effect that such a merger represented a further grouping of commercial banking resources into a single unit and a consequent erosion of independent banking outlets.

At the conclusion of the discussion the report was approved for transmittal to the Comptroller with the conclusion reading as follows, Governor Mitchell's reservations having been noted and Governor Shepardson having indicated that his views were along somewhat the same lines as those of Governor Mitchell:

Consummation of the proposed merger would eliminate the competition existing between The Citizens and Southern National Bank of South Carolina and Citizens Bank of Darlington, as well as potential for more competition between them. While the proposed merger would not significantly alter Southern National's competitive capabilities
in the areas in which it currently operates, nor alter its position in relation to other banks in the State, it would expand its geographical coverage into another county and would represent a further step toward concentration of banking resources in South Carolina.

Report on competitive factors (Portland-Bath, Maine). Pursuant to the understanding at the meeting of the Board on April 17, 1964, there had been distributed a revised draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of Canal National Bank, Portland, Maine, and The Bath National Bank, Bath, Maine.

In discussion of the matter, Mr. Leavitt reviewed the history of bank mergers in the State of Maine in recent years and the present banking structure in the State. In summary, it seemed to the Division of Examinations that there had not been undue merger activity in the State since the passage of the Bank Merger Act. In the revised draft of report, a paragraph had been inserted in the body of the report regarding the degree of concentration of banking resources in the hands of the larger commercial banks, and it had been noted that the concentration of commercial banking resources would be increased slightly through consummation of the current proposal. However, no reference to that factor was made in the conclusion of the revised draft.

Governor Shepardson stated that although he would not dissent from the sending of the revised draft report, he preferred the wording of the conclusion of the original draft, which stated that the proposed
consolidation would eliminate limited competition and that the competitive effects of the proposal would not be adverse.

A minor change in the wording of the conclusion was agreed upon, after which the report was approved for transmittal to the Comptroller.

The conclusion in the report, as approved, read as follows:

While the proposed consolidation of Canal National Bank, Portland, Maine, and The Bath National Bank, Bath, Maine, *would remove the only bank headquartered in the Brunswick-Bath area, it would eliminate only slight competition.*

Messrs. Shay, Goodman, Leavitt, Hricko, and Egertson then withdrew from the meeting.

**Conference of General Auditors (Item No. 7).** During a review of the report of the most recent examination of the Federal Reserve Bank of Atlanta at the Board meeting on March 25, 1964, certain aspects of the auditing procedures followed at the Reserve Banks were discussed. It was suggested during that discussion there might be a degree of built-in resistance on the part of the Banks and their Auditors to recommendations made by independent public accountants some of the Banks had consulted, in particular those recommendations addressed to the use of testing and sampling techniques. The public accounting firms that had reviewed the auditing function at some Reserve Banks were generally of the view that the auditing procedures applied to the verification and review of accounts and operations might be more detailed than necessary to provide satisfactory audit assurance. It was therefore suggested at the March 25 meeting that a special conference of General Auditors be convened to discuss the subject.
In this connection, there had now been distributed a memorandum dated April 20, 1964, from the Division of Examinations. The memorandum suggested that because of the special interest and responsibility of the Chairmen of the Federal Reserve Banks in respect to the audit function, a letter be sent to Mr. Atherton Bean, Chairman of the Conference of Chairmen, with regard to the plans for the convening of the special conference. A draft of letter was attached to the memorandum, along with a tentative agenda that would be enclosed with the letter.

Mr. Smith commented that the Conference of Chairmen had discussed in 1961 the responsibilities of the Reserve Bank Chairmen, acting through their Audit Review Committees, for the internal auditing function of the Reserve Banks. The Conference had adopted a resolution stating that it was desirable that the Board of Directors of each Federal Reserve Bank take appropriate steps to have the Audit Review Committee make a study, in consultation with the President and General Auditor of the Bank, of the auditing function and upon conclusion of the study to submit a report to the Board of Directors. The directors had shown a particularly active interest in the auditing function since that time. For this reason especially, it was suggested that a letter such as the one distributed with the Division's memorandum be sent to Chairman Bean.

Mr. Smith went on to say that from his conversations with some General Auditors he found a rather widespread opinion that outside public accountants made a mistake in equating commercial bank auditing with
Federal Reserve Bank auditing. The Auditors seemed to feel that commercial banks, operating with a profit motive, were likely to accept sampling techniques out of consideration of savings in auditing costs. On the basis, however, that the Reserve Banks should maintain the best possible public image, the General Auditors tended to be of the view that modification of stringent auditing procedures might be dangerous.

During the discussion that followed Mr. Smith's comments, Governor Robertson remarked that this was the very reason why the special conference was desirable. The Auditors should weigh their desire to do a perfect job against the advantages of doing a good testing and sampling job at substantially lower cost. The matter was one that required Board leadership.

Governor Mills suggested that the Board's staff should not, of course, stifle expressions of opinion by the General Auditors.

Mr. Solomon remarked that as he understood it the Board wished to try to steer a course that would exert leadership and influence without, on the other hand, going so far that the General Auditors and their Audit Review Committees would institute modified audit techniques unwillingly, on the ground that the Board had taken over the responsibility.

Discussion then turned, at the instance of Governor Mitchell, to the possibility of including on the proposed agenda consideration of operating costs, as contrasted with auditing costs, that were involved in following methods or procedures specified by the Auditors. He
recognized that probably the most fruitful exploration of this phase of
the matter would not come from discussion with the Auditors, however.

The question of broadening the agenda to take into account the problem mentioned by Governor Mitchell was explored at some length. It was recognized that although there might be some limitations, as he had suggested, in reviewing this point with the General Auditors, on the other hand the Auditors presumably gave weight to operating costs involved in procedures they recommended. Governor Mills suggested that the question be introduced along the lines of asking to what extent the Auditors were cost-conscious in working out the procedures they recommended for operating departments, as measured against the net gain involved in following such procedures, and there was general agreement that a question to such effect should be included on the agenda.

During further consideration of the tentative agenda, question was raised whether representatives of the Reserve Bank Planning (Methods and Systems) Departments should be invited to the forthcoming meeting, since a proposed agenda topic would inquire whether it would be desirable or appropriate to undertake operational audits in the light of possible conflicts with the Planning Departments in the Reserve Banks. Discussion suggested that it probably would not be appropriate to invite Planning Department representatives to this particular meeting. However, general agreement was expressed, in this connection, with a suggestion by Governor Robertson that the topic be changed to one that would inquire about the need
for Auditing Departments to engage in operational audits in view of the activities of the Planning Departments. There was also general agreement that it would not be appropriate to ask the Auditors about the attitude of the management of the Reserve Banks toward this type of activity on the part of the Auditing Departments, and that this question therefore should be dropped from the agenda.

At the conclusion of the discussion, unanimous approval was given to the proposed letter to Chairman Bean, with the understanding that the agenda for the special conference of General Auditors would be revised in the light of the views expressed by the Board at this meeting. A copy of the letter, with enclosed agenda, in the form transmitted is attached as Item No. 7.

Subject to the concurrence of Chairman Bean, it was understood that the special conference of General Auditors would be called by the Board, probably for dates in the latter part of June. It was also understood that the Division of Examinations would proceed in appropriate manner to discuss the proposed conference with the Standing Committee of General Auditors.

Payment of the cost of a dinner for the representatives of the Reserve Banks attending the special conference was authorized, along with the resultant overexpenditure in the pertinent account of the Board's budget for 1964. It was understood, in this connection, that the attendance from the Reserve Banks at the conference would probably be more limited than
usual, and that attendance of members of the Board's staff at the dinner also would be quite limited.

**Coin shortage in Bermuda.** Mr. Farrell reported on a telephone call from the State Department inquiring about the possibility of supplying additional American coin for use in Bermuda. The State Department was in receipt of a cable from the American Consulate stating that American coins were in wide usage in Bermuda and that there was a distinct shortage of such coin. Mr. Farrell had discussed the matter with the Treasury and the Federal Reserve Bank of New York, but the difficulty of alleviating the situation was evident. However, it was understood that Mr. Farrell would communicate with other Federal Reserve Banks to ascertain whether any relief could be offered.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 8 is a copy of a letter sent to Chairman Patman of the House Banking and Currency Committee on April 23, 1964, with regard to his request of November 7, 1963, that certain information from bank reports of condition be furnished to Professors Polakoff and Sawhill for use in a study to be made for the Committee. It had been understood at the Board meeting on March 17, 1964, that this letter would be sent if the other Federal bank supervisory agencies were agreeable to the data being provided, on a basis that would prevent disclosure of data for individual banks. Advice from those agencies indicated that they had no objection.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on April 23, 1964, the following actions relating to the Board's staff:
Transfer

Roberta M. O'Rourke, from the position of Secretary in the Division of Bank Operations to the position of Secretary in the Office of the Secretary, with no change in basic annual salary at the rate of $5,585, effective April 26, 1964.

Re-employment following maternity leave

Anne T. Roberson as Secretary, Division of Research and Statistics, with basic annual salary at the rate of $6,770, effective April 27, 1964.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 9) approving the designation of 16 employees as special assistant examiners.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointment

Melvin Goldstein as Summer Law Clerk, Legal Division, with basic annual salary at the rate of $4,690, effective June 15, 1964.

Salary increase

P. D. Ring, Technical Assistant, Division of Bank Operations, from $10,970 to $11,725, effective April 26, 1964.
Board of Directors,
Newton-Waltham Bank and Trust Company,
Waltham, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Newton-Waltham Bank and Trust Company, Waltham, Massachusetts, of a branch in a shopping center located at the northwest corner of Speen Street and Route 9 (Worcester Turnpike) in Natick, Massachusetts, 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 Directors,
Manufacturers and Traders Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch at 2210 Military Road, town of Niagara, Niagara County, New York, 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.)
April 24, 1964.

Board of Directors,
The Marine Trust Company
of Western New York,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Marine Trust Company of Western New York, Buffalo, New York, of a branch at 4381 Military Road, Town of Niagara, Niagara County, New York, provided the branch is established within one year from the date of this letter. 

It is understood that, in accordance with conditions imposed by the State Banking Department at the time of its approval of the proposal, the bank's capital structure will be increased by the sale of not less than $7 million of new capital stock.

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 Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank in the San Ramon Village Shopping Center at the intersection of Amador Valley Drive and Highway 21 in an unincorporated area of Alameda County, California, provided the branch is established within six months 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.)
April 24, 1964.

Bamerical International Financial Corporation,
41 Broad Street,

Gentlemen:

Reference is made to your letter of March 16, 1964, transmitted through the Federal Reserve Bank of New York, informing the Board of Governors that your Corporation has agreed to invest approximately US$83,333 equivalent in the capital stock of a new financing corporation to be known as Promotora de Inversiones S.A. ("PDI"), which is being formed in Barcelona, Spain. You further advised that your Corporation had agreed to invest a second amount equivalent to about US$83,333 when requested by PDI. You have requested the Board's consent to invest a possible total of the equivalent of US$333,333, representing 20 per cent of the total authorized capital of PDI.

Section 211.8(a) of Regulation K grants general consent for any Corporation organized under section 25(a) of the Federal Reserve Act "to acquire ... and hold the shares of corporations organized under foreign law if such acquisition (1) is incidental to an extension of credit by the Corporation to the corporation whose shares are acquired, (2) consists of shares in a foreign bank, or (3) is otherwise likely to further the development of United States foreign commerce; ..."

From the information submitted, it seems clear that the proposed acquisition of shares of PDI would not come within the general consent provisions of clause (1) or clause (2) of Section 211.8(a). However, as it would appear that the activities of PDI would be "likely to further the development of United States foreign commerce," the shares of PDI could be acquired under clause (3) of Section 211.8(a) up to the equivalent of US$200,000. As the proposal contemplates that your Corporation may invest a
possible total of the equivalent of US$333,333, the Board grants specific consent, in accordance with your request and on the basis of the information furnished, for your Corporation to purchase and hold 20 per cent of the shares of PDI at a cost not to exceed approximately US$333,333, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of PDI within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
April 24, 1964.

Roger C. Minahan, Esq.,
Whyte, Hirschboeck, Minahan,
Harding & Harland,
2100 Marine Plaza,
Milwaukee, Wisconsin. 53202

Dear Mr. Minahan:

This refers to your letter of April 20, 1964, to
Mr. Shay of the Board's staff, requesting a copy of the Board's report to the Federal Deposit Insurance Corporation on the competitive factors involved in connection with the application under the Bank Merger Act of 1960 of Peoples Trust & Savings Bank, Green Bay, Wisconsin, to acquire the assets and assume the liabilities of the Bank of Green Bay, Green Bay, Wisconsin.

A copy of the requested report is enclosed herewith.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
Mr. Atherton Bean, Chairman,
Conference of Chairmen,
c/o Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Bean:

As you know, in accordance with a resolution adopted by the Conference of Chairmen on November 30 - December 1, 1961, the Audit Review Committees of the Boards of Directors of the several Federal Reserve Banks each caused a special study to be made of the auditing function in their respective Banks. In four of the Reserve Banks, the Audit Review Committees availed themselves of the assistance of outside consultants, engaging certified public accountants to conduct studies for them. Copies of the reports submitted by the various public accounting firms have been made available to the Board and have been analyzed by its staff.

For the past several years, the Board has been employing a public accounting firm to make an annual survey of the examination procedures applied by the Board's staff in examining the Federal Reserve Banks, and the Board has had, of course, the benefit of opinions and recommendations of such firms.

The comments of the various public accountants raise the question whether the internal auditing procedures applied to the verification and review of the accounts and operations in the Federal Reserve Banks may be more detailed than necessary to provide satisfactory audit assurance. For example, such activities on the part of the Auditing Departments may involve the keeping of records that should be maintained in the operating departments or records that substantially duplicate those maintained in the latter departments. The public accountants also emphasize the desirability of procedural reviews by the auditors, augmented by appropriate audit testing and sampling, for obtaining assurance that the regular operating procedures and routines of the Banks provide adequate internal controls and safeguards. Such reviews and tests, it has been suggested, would permit considerable curtailment of detailed verification procedures without loss of audit effectiveness.
The Board believes that the views of the professional accountants, such as outlined above, merit the careful attention and consideration of the General Auditors of all the Reserve Banks and the Board's Division of Examinations. It is felt that a useful purpose would be served by a special Conference of General Auditors in the near future at which there could be a full discussion of the possible advantages or disadvantages in the recommendations and suggestions that have been advanced, looking toward agreement among the members of the Conference on any revisions of auditing practices in the Banks that would be of benefit to the System.

A possible agenda of the topics that might be discussed at the suggested Conference is attached.

The Board would appreciate knowing whether you concur in having the Board of Governors call such a Conference at a date to be selected in consultation with the Standing Committee of General Auditors, probably in the latter part of June. If you agree, arrangements for the Conference to be held in the Board's building would be made by the Standing Committee of General Auditors, with the assistance of Mr. James C. Smith, Assistant Director of the Board's Division of Examinations, and the Conference would be under the chairmanship of the Chairman of the Standing Committee.

Sincerely yours,

Merritt Sherman,
Secretary.

Attachment
1. Are the auditing procedures now in effect in the Reserve Banks more extensive than necessary to provide reasonable assurance of the validity of the account balances and the existence of adequate safeguards in the accounting and operating procedures of the Banks?

2. Are the audit frequency schedules actually in effect in the Banks greater than reasonably necessary in relationship to the assurances mentioned in item 1 preceding?

3. What are the advantages and disadvantages of a minimum frequency schedule for System-wide application as illustrated by the recommendations heretofore adopted by the Conference of General Auditors and now in effect, in comparison with frequency schedules tailored to the particular situation existing in each Reserve Bank?

4. What are the advantages and disadvantages of procedural audits, supplemented by appropriate testing and sampling, as compared with the detailed verification procedures that have been traditionally followed in the Reserve Banks?

5. In connection with audit recommendations for changes in operating methods or procedures, what consideration is given to over-all cost factors that may be involved; are evaluations made of the advantages to be gained from such changes as compared with the possible additional costs imposed?

6. In view of the activities of the Planning (Methods and Systems) Departments in the Reserve Banks, to what extent, if any, would it be appropriate or desirable for Auditing Departments to engage in operational auditing?

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1/ Procedural audit as used here is intended to mean a review of the operating procedures in effect in a departmental activity and of work conformance with such procedures with a view to evaluating the integrity of the operation from the standpoint of the controls and safeguards provided.

2/ As defined by one of the public accounting firms which studied the auditing function in a Reserve Bank, "operational auditing" would be concerned with evaluating the effectiveness of the various operating and staff Departments of the Bank in discharging their assigned responsibilities in accordance with prescribed policies and procedures; it would not be limited to an evaluation of the efficiency of existing controls but would extend to an evaluation of the efficiencies of procedures and operations." The same firm made the further comment: "Operational audits can be an important part of management's over-all system of control and as such they can keep management informed as to whether its directives are followed. Their value is recognized by industry generally as a result of constructive suggestions for reducing costs and increasing the effectiveness of operations."
The Honorable Wright Patman, Chairman,  
Banking and Currency Committee,  
House of Representatives,  
Washington, D. C. 20515

Dear Mr. Chairman:

This is in further reply to your letter of November 7, 1963, requesting that certain information from reports of condition be furnished Professors Polakoff and Sawhill for use in a study to be made for the Committee. My letter of November 15 stated that this request had been referred to staff for further study to determine the magnitude of work involved in making these compilations, priority to be assigned to the project, and whether the desired data could be compiled without violating usual disclosure restrictions.

Since that time, the Board's staff has conferred on several occasions with your staff and with Professor Sawhill regarding these problems. Pursuant to these discussions, Professor Sawhill submitted his letter of December 20, explaining the nature and purpose of his proposed study in some detail and expanding the request for data included in your letter of November 7. A copy of this letter was sent to Mr. Johnson, formerly of your staff. For your ready reference, a copy of this letter is enclosed.

Compilations requested by Professor Sawhill would require a major effort that could not be performed by the Board's staff in the near future in an orderly manner. However, in view of your interest in the proposed study, the Federal supervisory agencies are agreeable to providing the requested data to Professor Sawhill on a basis that prevents individual bank disclosure. The data in question will be made available for use on the Board's computer for up to 50 hours on weekends, as time permits, provided Professor Sawhill will develop the necessary computer program and furnish administrative assistance needed for processing these data.

It will be appreciated if you will inform the Board whether this arrangement is agreeable with you and Professor Sawhill.

Sincerely yours,

Wm. McC. Martin, Jr.
April 24, 1964.

Mr. Joseph R. Campbell, Vice President,  
Federal Reserve Bank of Philadelphia,  
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of April 22, 1964, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Philadelphia for the purpose of participating in examinations of State member banks.

Joseph G. Breen  
Charles J. Sullivan, Jr.  
Thomas J. Laughlin  
William O'Connor  
John M. Sanders  
Ralph W. Curry  
Robert J. Anusky  
Edward Fitzpatrick  
Edgar W. Hewitt  
James Walsh  
Joseph M. Mason  
Ronald DiMarco  
William A. McCarrin  
William Gillingham  
Dwight Spickler

The Board also approves the designation of Patrick R. Harris as a special assistant examiner for your bank for the purpose of participating in examinations of State member banks except The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.