Minutes for June 18, 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 WM

Gov. Mills

Gov. Robertson

Gov. Balderston CCB

Gov. Shepardson

Gov. Mitchell

Gov. Daane

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Minutes of the Board of Governors of the Federal Reserve System on Thursday, June 18, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills 1/
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Bakke, Assistant Secretary
Mr. Fauver, Assistant to the Board
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. Holland, Associate Director, Division of Research and Statistics
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Langham, Assistant Director, Division of Data Processing
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Kakalec, Assistant to the Controller, Office of the Controller
Mr. Veenstra, Chief, Financial Statistics Section, Division of Data Processing

1/ Withdrew from meeting at point indicated in minutes.

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Ratification of action. The action taken by the available members of the Board on June 16, 1964, as recorded in the minutes of that meeting, in authorizing the issuance of an order and statement reflecting the Board's approval of the merger of Bank of Graham, Bluefield, Virginia, into Farmers Bank of Clinch Valley, Tazewell, Virginia, was ratified by unanimous vote.

Application of Manufacturers and Traders Trust Company (Item No. 1). Unanimous approval was given to the application of Manufacturers and Traders Trust Company, Buffalo, New York, for permission to establish a branch in Hamburg Village, Erie County, New York. A copy of the letter informing the applicant of this approval is attached as Item No. 1.

Report on competitive factors (Worcester, Massachusetts). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Industrial City Bank and Trust Company, Worcester, Massachusetts, into The Mechanics National Bank of Worcester, Worcester, Massachusetts.

During a discussion centering on the extent and significance of competition from savings banks in the Worcester area, it was agreed to delete the second sentence of the conclusion of the draft report, which would have indicated that, in view of the unusual competitive capabilities of the local savings banks, the merger would not have an appreciable effect on the banking structure in the over-all area. With that change, the report was approved unanimously for transmission to the Comptroller of

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the Currency. The conclusion of the report, in the form approved, read as follows:

> The proposed merger of The Mechanics National Bank of Worcester and Industrial City Bank of Worcester would eliminate the limited competition between the two banks and the potential for increased competition.

Savings institutions in Massachusetts. During discussion of the preceding matter it was recalled that several years ago, when the Board considered a proposed merger involving certain banks in Massachusetts, the Federal Reserve Bank of Boston had submitted extensive information regarding the competitive capacity of savings institutions in Massachusetts.

General agreement was expressed with a suggestion that such information be brought up to date and made available to the Board.

Mr. McClintock then withdrew.

Proposed New Orleans real estate purchase. On June 10, 1964, the Board had discussed a proposed purchase of property adjoining the New Orleans Branch building site, as described in a circulated memorandum dated June 5 from the Division of Bank Operations, in order to permit demolition of certain dilapidated structures now occupied by undesirable tenants adjacent to the new Branch building. The memorandum had pointed out that although the building site acquired for the Branch in 1958 would accommodate anticipated growth for many years, future expansion of office facilities on the present property could be undertaken only at the expense of parking space. Various other information

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bearing on the proposed purchase was also contained in the memorandum, and the discussion relating thereto had ended with agreement that further information would be sought from President Bryan of the Federal Reserve Bank of Atlanta, who was to be in Washington the following week.

Governor Mitchell reported that pursuant to this agreement he had discussed the matter with President Bryan, who had not been able to add much of substance to the information previously furnished in justification of the proposed purchase.

Mr. Farrell then commented on background circumstances related to the purchase of the present building site and discussed certain facts concerning the property proposed to be acquired. He brought out, among other things, that the Board had approved an expenditure of up to $1 million for the present building site, but the acquisition cost had only been $750,000. Thus, if the proposed purchase could be made for the appraised value of the property, $329,000, the aggregate cost of both properties would be only $79,000 more than the expenditure the Board had been willing to allow for the present site alone. He added, however, that the pending request was for approval of a top figure of $425,000, to allow room for negotiation. Further comment was made that although the Reserve Bank did not have plans for active use of the additional property, there was a question whether the 50-space parking area planned for the new Branch building would be adequate for long-term use, since the Branch now had about 225 employees. Mr. Farrell

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then displayed and commented upon a map showing the position and certain features of the present building site, the property proposed to be acquired, and the immediately surrounding area. He noted that the present building site contained 65,000 square feet and the property proposed to be purchased 16,370 square feet, and observed that the total of 81,370 square feet would not be out of line with the size of certain Federal Reserve Branch properties, topped by the Buffalo Branch with 82,600 square feet and several other Branches with areas of around 60,000 square feet or more. Mr. Farrell emphasized that he was not arguing for the purchase, but merely presenting facts.

Governor Robertson commented that the present building site in New Orleans was more than two-thirds as large as most of the head office or branch areas, to which Governor Mitchell responded that most of the Banks and Branches had insufficient space; for example, the Chicago Reserve Bank, with 54,000 square feet, had to park a number of its trucks in the street.

Governor Shepardson commented that an adverse working environment could create a personnel problem, as demonstrated by the situation that had been encountered by the Denver Branch. He had visited the New Orleans building site and could readily see that the disreputable nature of some of its surroundings could be an adverse working condition for Branch employees. Also, so far as property values were concerned, it seemed reasonable to expect an improvement, since the rehabilitation plans of

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the City of New Orleans for the area in question seemed to be beginning to move.

Governor Robertson observed that improvement of the area would probably bring better neighbors, but it also might make the property in question more expensive than would be appropriate for use by the Branch. In his view, if the property was needed, it should have been purchased at the time the building site was acquired.

Chairman Martin remarked that this was true of many property acquisitions. It had been his observation that when a proposal such as the present one was turned down, subsequent events usually showed that approval would have been the better choice. As he saw it, there seemed to be no question as to the merits of the purchase proposal as a purely business proposition, although careful consideration should be given to the appropriateness of spending public funds in the circumstances presented.

After further discussion, Governor Mitchell suggested that Mr. Farrell visit New Orleans, talk with the Chairman of the New Orleans Branch Board, among others, and return to the Board with a recommendation.

General agreement was expressed with Governor Mitchell's proposal, Governor Robertson suggesting also that, if it looked as if the purchase should be approved, the boards of the Atlanta Bank and the New Orleans Branch submit recommendations with related information that would provide a record that would more clearly justify approval.

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Call report (Items 2, 3, and 4). There had been distributed a memorandum dated June 16, 1964, from Messrs. Veenstra and Holland reporting that, in response to the Board's letter sent pursuant to the discussion on May 27, 1964, the Comptroller of the Currency in a letter of June 8 had informed the Board that he would use a form for the midyear call that would have the same face as was used for the April 15 call. The back of the form would contain the detailed schedules of loans, Government securities, cash assets, and deposits, and have the same format as for State banks, although the content of some items that were related to revised items on the face would vary. It was recommended, in the light of the Comptroller's letter, that the Reserve Banks collect eight supplementary items of information directly from national banks in order to enable adjustment of all major national bank condition statistics to a basis compatible with State bank condition statements. Such a step appeared to be the only practicable means of obtaining reliable summary statistics for all member and all insured banks for the midyear call. The procedure would also permit adjustment of individual national bank condition information so that comparisons of national and State bank performance on a local basis would be valid. Attached to the memorandum were (1) a draft of letter to the Federal Reserve Banks transmitting (a) the State member report forms for the June call, (b) a reconciliation statement to be collected from national banks at the June call, and (c) the branch deposits report forms to be

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sent to all member banks operating branches outside their head office city; (2) a draft of a proposed reconciliation statement; (3) a draft of letter to the Bureau of the Budget and supporting statement requesting approval of the reconciliation statement; and (4) a draft of letter to the Bureau of the Budget requesting approval of the branch deposits survey.

Among other background comments, the memorandum noted that the June 8 letter from the Comptroller of the Currency contained language that might or might not indicate that he would not object to a Federal Reserve request of national banks for a reconciliation statement. It was brought out also that staff-level discussions with the Bureau of the Budget indicated some uneasiness toward giving approval for the Reserve Banks to collect supplementary condition information from national banks. While it seemed probable that the Bureau would eventually approve the proposed reconciliation statement, there had been some talk of calling a high-level meeting of agency representatives to discuss the statement before approval would be given.

At the Board's invitation, Mr. Holland commented on the situation, with special reference to statistical problems that arose from the use of dissimilar forms for call reports by the Federal bank supervisory agencies. One development in this regard related to the effort being made by Chairman Barr of the Federal Deposit Insurance Corporation to initiate a new round of inter-agency meetings looking

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toward agreement on a report form. His letter of invitation had suggested that the first meeting be preceded by submission of suggestions as to a form on which there might be hope of agreement. The Comptroller was said to have declined participation in such a meeting on the ground that the report form he had in use suited his purposes.

Governor Mitchell asked whether the Bureau of the Budget gave approval to the form used by the Comptroller of the Currency. Responses indicated that some years ago all agencies had been requested to clear forms for collection of statistics with the Bureau. It was understood that the Comptroller of the Currency and the Federal Deposit Insurance Corporation formerly complied with that request, but no longer did so.

Further discussion turned upon the Board's right to make direct requests of national banks for information and the legal recourse available in the event such a request should be refused.

The letter to the Federal Reserve Banks and the two letters to the Bureau of the Budget were approved unanimously. Copies are attached as Items 2, 3, and 4.

Messrs. Holland, Langham, and Veenstra then withdrew.

Reporting requirement under Regulation U (Item No. 5). Part two of a study of the impact of tax-exempt foundations and charitable trusts on the nation's economy, published in October 1963 by a Subcommittee of the House Select Committee on Small Business, discussed certain activities of the Baird Foundations in New York City, among others. Subcommittee Chairman Patman had asked the Board to review

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the Foundations' activities from the standpoint of possible violations of section 22 of the Federal Reserve Act or other laws within Federal Reserve jurisdiction. Pursuant to discussions at meetings of the Board on January 15 and 16, 1964, letters were sent to Subcommittee Chairman Patman and to the Securities and Exchange Commission on January 17. The letter to Mr. Patman indicated that the Foundations' transactions did not appear to conflict with any statutory or regulatory provisions administered by the Board, except possibly the Foundations' failure to report loans made during fiscal year 1959 for the purpose of purchasing or carrying registered securities, as provided for in section 221.3(j) of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks. It was also stated that the question whether such a violation had in fact occurred was being referred to the Securities and Exchange Commission.

There had been distributed a memorandum dated June 16, 1964, from the Legal Division, stating that informal word had been received from the staff of the Securities and Exchange Commission that the Commission's Chairman had been asked to testify before the Subcommittee on or about July 22, 1964, regarding questions arising from the October 1963 report on foundations and trusts, and that, in the view of the Commission's staff, it would be difficult to prove willful failure on the part of the Baird Foundations to file the reports in question unless they had been notified by the Board that they were subject to the filing

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requirement and had failed to comply. Attached to the memorandum was a draft of letter that would ask the Federal Reserve Bank of New York to notify the Baird Foundations that they were subject to the filing requirement of section 221.3(j) of Regulation U.

Discussion brought out, among other points, that even though primary responsibility to comply with the reporting requirement rested upon the respondent, there was reason to lay a formal basis for any charge of noncompliance that might be made. Comment was made that even when reports were requested merely for purposes of obtaining information, such as the one in question, the Board had some obligation to follow up where there were indications that certain organizations had failed to comply. There was also discussion of the possible desirability of a continuing reporting requirement of transactions covered by section 221.3(j) of Regulation U, rather than the one-time report now called for.

The letter to the Federal Reserve Bank of New York was approved unanimously. A copy is attached as Item No. 5.

Messrs. Fauver and Leavitt and Miss Hart then withdrew.

Examination report form. There had been distributed a memorandum dated May 28, 1964, from Mr. Solomon regarding a change in the style of report that had been made effective with the report of examination of the Federal Reserve Bank of San Francisco as of March 23, 1964. The principal effect was to replace the rather full-scale reports formerly prepared for each branch with a brief letter report. Pursuant to the

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intention expressed by Mr. Solomon at the meetings on March 5 and April 1, 1964, a review also had been made of the material in the main section of the report, resulting in a proposal for substantially curtailing the contents thereof as exemplified by a pro forma report attached to the memorandum. The pro forma report, for ease of comparison, simulated the report of examination of the San Francisco Bank as it would appear if the suggested deletions and changes were given effect. The proposed modifications were itemized on tables attached to the memorandum.

At the Board's invitation, Mr. Solomon commented on the proposed revision, which was part of a second round of steps being taken pursuant to a review of examination procedures by Haskins & Sells. It was expected to put the revised procedures into effect with the next examination started after the conclusion of the examination of the New York Reserve Bank, currently in progress. Haskins & Sells had already reviewed and commented favorably on some of the second round of revised procedures, and there was every reason to expect that other proposed revisions, including the modified examination report form, would be similarly satisfactory. In essence, the objective sought to be achieved in revising the procedures was to move away from the massive sampling that had been undertaken in the past in Reserve Bank examinations.

In this connection, Mr. Solomon described a meeting that had been held with the senior field force, the Board's Washington staff, and

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representatives of Haskins & Sells, looking toward the application of statistical sampling to the field of accounting, auditing, and examining. Specialists in statistical sampling from Haskins & Sells and from the Board's staff had participated in the meeting. A further meeting had been held by the Division of Examinations with Mr. Holland of the Division of Research and Statistics to discuss the general subject of discounts and how the examiner should best approach this aspect of Reserve Bank operations. In Mr. Solomon's view, this was one of the most difficult problems that confronted the examiner. Over a period of years a somewhat mechanistic approach seemed to have developed that made the discount window of limited usefulness. Although the Foreword to Regulation A, Advances and Discounts by Federal Reserve Banks, did not call for such a mechanistic approach, it had perhaps been misconstrued as if it did. This deterrent to exercise of the full scope of the discount function might constitute an impediment to System membership and might hinder the extension of Federal Reserve credit where funds were most directly needed. Although the problem was not primarily related to examinations, except insofar as examiners had to be on the front line, it was hoped that the current explorations of the subject would produce some suggestions, still within the Foreword to Regulation A, that would permit greater flexibility.

Returning to the revised form of report, Mr. Solomon noted that the reduction of the branch reports of examination to letter form had

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reduced the over-all report from 213 to 100 pages. The suggestions in the memorandum for reductions in the text would eliminate another 36 pages. He suggested that a further reduction be made by eliminating Forms FR 34 and FR 5, at the end of the report, comprised of balance sheets and a Federal Reserve Agent's statement.

Mr. Solomon emphasized that the abbreviated report sought to condense only routine matters. Any unusual or significant developments in the areas affected by the reductions obviously would be brought before the Board. He observed that the question whether particular information now contained in reports of examination of the Reserve Banks could be dispensed with in the revised report form involved two considerations - first, what information the recipients of the report feel they must have, and second, the cost involved in preparing the reports. The recipients were, most immediately, the Board and the Reserve Bank officers and directors. From the Washington view, it was easy to underestimate the interest taken in examination reports by Reserve Bank directors, who saw only one report each year, whereas the Board saw twelve. Mr. Solomon added that it should also be borne in mind that the reports might be reviewed by the House Banking and Currency Committee, and in view of that possibility, it would be well to guard against any charge that the reports had been trimmed down to a point that fell short of accepted standards of adequacy. As to the cost element, the great bulk of expense was for assembling and analyzing the data, lesser costs

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arising from typing, duplicating, and filing. The cost of assembling and analyzing had in effect already been established by the Board when, after reviewing the recommendations of Haskins & Sells, it had adopted the present directive to the examining staff. Virtually all of the information needed for the schedules was called for under the directive, and therefore any reduction in cost of preparation would necessarily relate only to the expense of typing, duplicating, and filing.

Mr. Solomon went on to say that with the form of report being more concise, the summary memorandum from the Division of Examinations to the Board that in the past had been circulated with each report could either be greatly condensed or omitted altogether, and only particular passages of the report called to the Board's attention.

At Chairman Martin's request for comments from the members of the Board, Governor Robertson expressed the view that, having done a good job of boiling down the report, the Division's summary memorandum, which duplicated information in the report, could be discontinued. He added, however, that he had difficulty in seeing the virtue of certain of the proposals for moving information from a consolidated schedule in the body of the report to a separate memorandum that would not come before the Board. Some of the latter data would involve the same amount of work for preparation whether they were in the report proper or in a separate memorandum, and, although he had no objection to separate memoranda, he saw no need for separating this material from the report.

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If everything was included in one report, the mere size of the schedules did not bother him. In fact, it seemed to him that the data would be more usable if in one spot than if contained in a number of scattered memoranda. Examples of what he had in mind were certain balance sheet entries such as sundry items payable, under other liabilities; statement of accountability to Treasury Department for United States Government securities; purchases and sales of securities; noncash collections; and cafeteria; all of which Mr. Solomon's May 28 memorandum indicated would be eliminated from the schedules in the body of the report and dealt with separately.

Governor Mills stated that he was favorably impressed with the Division's work in condensing the report, and, generally speaking, he would adopt the pro forma report that had been given as a sample. However, he believed that more time should be taken to consider the matter of separate memoranda. In principle, he agreed with the idea of eliminating from the schedules in the report certain statistical measurements that were not important for evaluating the financial position or audit status of the Reserve Banks. However, it was his view that the key function of the examination report was to point up the Banks' status in these areas, and for this reason he was inclined to feel that the report schedules might well merit further review with an eye to augmenting data in certain areas. He would be inclined toward more inclusions rather than toward more deletions. Also, he placed reliance

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on the judgment of the examiners to bring to the Board's attention any matters that warranted comment but were not included in the condensed schedules.

Governor Shepardson, recalling Mr. Solomon's remarks as to costs, referred to the comments in Haskins & Sells' report to the effect that certain data in the reports of examination of Reserve Banks were not really pertinent for the purpose sought to be served. Without trying to go down the list of items to debate the merits of inclusion or deletion, he would agree with Governor Robertson that if the material was needed there would not seem to be any purpose to presenting it in a separate memorandum. A few extra pages did not bother Governor Shepardson, but he did question the function of some of the items. For example, he agreed with a suggestion that the certified statement of condition be eliminated. If the examiners found the certification by the Bank's auditor correct, it should be sufficient for this to be reported, rather than to make up a duplicate of the statement.

Governor Mitchell remarked that anyone wanting to use a condition statement would not usually seek the one in the examination report, but would use one of the weekly ones that were easily available. He felt that a certification that the statement as of the date of examination had been found correct should be sufficient for purposes of the report.

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Governor Shepardson continued with the observation that the earnings and expenses section might also be eliminated, and if the examiner found points to criticize they should be noted in the text. He noted that twice a year the Board received budget information from the Reserve Banks with a statement of earnings and expenses compared with the budget; this seemed to him more useful, in contrast with the absence of any meaningful basis of comparison for the figures in the report of examination.

Governor Mills expressed misgivings that decisions regarding changes in the form and content of the examination report might be being made too hastily and that snap judgments might reduce the value of the report unduly. As one who had lived with banking reports, he had been won over to the need of a rather complete document.

Governor Shepardson said that he could not necessarily agree, stating that in his opinion the report could be condensed even further. The statistical information was presented as of the date of examination, whereas more recent figures were usually available from other sources for any statistics that were needed for comparison and analysis. To him, a pertinent question was whether some of the information was really useful to the Board's staff. For instance, the report included a section on property, yet every major property transaction by a Reserve Bank was submitted for the Board's approval, with extensive memoranda justifying the proposal. He was at a loss to see what was gained by

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having the examiners go back over that ground. Similarly, the pro forma report included information on buildings and tenants, although changes in those areas were infrequent and the Board received reports on any major changes. On the other hand, he was also of the opinion that more information was needed than had heretofore been included in several areas, such as discounts, where a bare set of figures was now shown, with no basis for relating them to other data for purposes of comparison. In his view, the effort to revise the examination procedure and to make the report meaningful and useful required further review, with some further eliminations and some expansions.

Governor Mitchell expressed agreement that better coverage of the discount function was needed. However, he was not sure that it was really necessary to have the section on scope of examination in the branch reports. Other than these points, he took no exception to Mr. Solomon's proposals as to the text of the report, which might be used as a basis for discussion. As for the exhibits, Governor Mitchell would omit all except the two forms, balance sheet and Federal Reserve Agent's statement, which could be certified on the back. The practice of accountants was to certify that books and records were correct on a certain date; they did not provide schedules unless there was something wrong, which was then fully explored. The Federal Reserve System was different from almost any other organization, except possibly a bank, in that it had a daily statement. What was wanted from an

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examination, as Governor Mitchell saw it, was nothing more than a certification that the statement was correct as of that date.

In response to an inquiry by Chairman Martin whether further discussion of the proposed new report form was desired, Governor Mills reiterated his strong feeling that the Board should review comprehensively the suggested inclusions and deletions before reaching a decision on changes. He commented that although Governors Shepardson and Mitchell apparently would be inclined to delete much information and merely rely on certification that the figures had been proved correct, that was not, in his mind, adequate for the Board's purposes. What was needed was full and detailed data from which the Board could evaluate the administration of the Reserve Bank as seen through the eyes of the examiner. In his view, since the report had already been condensed to 100 pages, the Board should be in no haste to make further cuts.

During further discussion, Chairman Martin commented that the reports had contained far too much detailed material so far as he was concerned. While no member of the Board ought to be denied any information he found useful, there was a question as to whether a better presentation might be made.

Governor Shepardson pointed out that, assuming there was need for the tabulations in the pro forma report, there was a separate tabulation for each branch of many of the items shown for the head office, and he asked if that information could not be presented in

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multi-columnar form on one page for all offices of a Reserve Bank. Staff responses indicated that individual compilations were made for each branch to provide a report to the branch management. However, a report including figures for head office and all branches in one tabulation could be circulated.

Governor Robertson suggested that the Division of Examinations go back through the suggested report form in the light of the discussion at this meeting with a view to seeing what could be consolidated and what duplications there were, and then get the views of other divisions on information they found useful and whether that information should be made available in separate memoranda rather than in the report proper.

After further discussion, Chairman Martin expressed the view that significant progress in improving the examination report form had been made and the project was well on the way to an important simplification. However, especially in view of the absence of two members of the Board from today's meeting, it might be advisable for the Division of Examinations to follow Governor Robertson's suggestion for consultations with other divisions and to weigh further the importance of various items and how they might best be presented, the results to be submitted for further consideration by the Board.

It was understood that this suggestion would be followed.

Governor Mills then withdrew from the meeting.

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<u>Examination of San Francisco Reserve Bank</u>. There had been distributed to the Board a memorandum from the Division of Examinations dated June 10, 1964, reviewing the report and supplemental memoranda relating to the examination of the Federal Reserve Bank of San Francisco made by the Board's examining staff as of March 23, 1964. The examination report and usual accompanying memoranda had been circulated to the Board.

At the request of the Board, Mr. Smith commented in supplementation of the examination report and related papers. It appeared that the examination had not disclosed any matters that were regarded as calling for action by the Board.

<u>Securities reported missing by member bank</u>. Mr. Solomon reported that, pursuant to the discussion at the meeting on May 28, 1964, President Ellis of the Federal Reserve Bank of Boston had been asked to furnish certain information, requested by Mr. Robert A. Schremp of the House Banking and Currency Committee staff, about an incident involving certain securities reported missing by State Street Bank and Trust Company, Boston, Massachusetts. Among other things, Mr. Schremp had asked if any reports of the incident had been made by the Reserve Bank. President Ellis' reply referred to a report by the Bank's Audit Department, and Mr. Schremp had now requested that report.

There was unanimous <u>agreement</u> that the report should be furnished to Mr. Schremp.

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All members of the staff except Messrs. Sherman and Johnson then withdrew.

Actions relating to Board's staff. Governor Shepardson reported that J. J. Connell, Controller, had elected to retire as of the close of business June 30, 1964. To succeed Mr. Connell, Governor Shepardson recommended that John Kakalec, at present Assistant to the Controller, be appointed Controller, effective July 1, 1964, at a salary of $15,250 per annum.

Mr. Connell's application for retirement was noted, and Governor Shepardson's recommendation of Mr. Kakalec's appointment as Controller was approved unanimously.

Federal Government pay bill. Governor Shepardson noted the possibility that the Federal Government pay bill, H. R. 11049, might be enacted in the near future, raising the salaries of classified workers as of a near-term date and raising official salaries as of the beginning of 1965. He inquired whether, if such legislation were enacted, the Board would contemplate following the procedure that had been followed in recent years. This had entailed applying the salaries provided by the pay bill to Board employees in nonofficial positions, and of adjusting salaries of a few officials who had been recently appointed and for whom the adjustment under the pay bill, if applied to the salaries they were receiving before their official appointments, would have resulted in larger amounts than their present salaries. He

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noted that there might be a few other instances in which non-officer employees would receive salaries under the revised pay bill in excess of those of their supervising officers.

Members of the Board indicated that in the event the pay bill were enacted the same general procedure should be followed that had been followed in recent years; namely, the rates would be applied to comparable positions on the Board's staff and a review would be made to determine where adjustments in certain officer salaries might be called for at the same time in order to avoid inequities of the type that had been referred to by Governor Shepardson.

The meeting then adjourned.

Secretary's Note: On June 17, 1964, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Secretary of the Retirement System of the Federal Reserve Banks (attached Item No. 6) regarding payment by the Board of the cost of increased retirement benefits incorporated into the Board Plan for Board annuitants as provided in Public Law 87-793.

Memoranda recommending the following actions relating to the Board's staff:

Appointment

Charles F. Phillips, Jr., Assistant Professor of Economics, Washington and Lee University, as Consultant in the Division of Research and Statistics on a temporary contractual basis effective to December 31, 1964, with compensation at the rate of $50 per day and necessary travel in accordance with the Board's travel regulations.

Establishment of budget position

Position of Senior Economist in the Flow of Funds Section of the Division of Research and Statistics.

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Acceptance of resignations

Stuart H. Altman, Economist, Division of Research and Statistics, effective at the close of business June 26, 1964.

Phyllis Featherstone, Statistical Assistant, Division of Research and Statistics, effective at the close of business June 24, 1964.

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

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 7) approving the appointment of Bruce E. Dean as assistant examiner.

Memorandum from the Division of Administrative Services dated June 16, 1964, requesting authorization to purchase a VariTyper, Model 660-F, at a cost of $3,250. Approval of this request constituted approval of the resultant overexpenditure in the Division's 1964 budget.

Memoranda recommending the following actions relating to the Board's staff:

Salary increase

James R. Smith, Review Examiner, Division of Examinations, from $9,250 to $9,980 per annum, effective June 21, 1964.

Transfer

John B. P. Baird, from the position of Analyst in the Division of Bank Operations to the position of General Assistant in the Office of the Secretary, with no change in basic annual salary at the rate of $7,490, effective upon assuming his new duties.

Secretary

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BOARD OF GOVERNORS
OF THE
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WASHINGTON 25, D. C.

Item No. 1
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 18, 1964

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 in the Hamburg Shopping Center located at 141-161 Buffalo Street, Hamburg Village, Erie County, New York, 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.)

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Item No. 2
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1964

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of copies

Form FR 105 (Call No. 172), Report of Condition of State member banks.

Form FR 105e (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form FR 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

The forms are identical to those used for the December 20, 1963, report. Form FR 105 includes the schedules on the reverse, which had been eliminated for the spring call. The same form is being printed by the Federal Deposit Insurance Corporation for distribution to insured nonmember State banks.

The face of the form to be distributed to national banks by the Comptroller of the Currency is expected to be the same as that used by that Agency for the April 15, 1964, call date and thus will differ in several respects from the form being used by State banks. However, it is understood that the reverse of the form to be used by national banks will be the same as for State member banks.

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In these circumstances, it will be necessary to collect additional information directly from national banks in order that statistical information may be compiled for all member and all insured banks for the midyear call date. For this purpose, three copies of a supplementary reconciliation statement for each national bank (draft copies attached) will be forwarded as soon as available. A new memorandum on operating procedures for editing and tabulating national bank reports and the reconciliation statements will be forwarded to the Reserve Banks by the Division of Data Processing in the near future. Procedures to be used for editing and tabulating State member reports will be the same as those in effect for the December call.

It is planned to collect June 30, 1964, branch deposits data by cities from all member banks operating branches outside the head office city on the same basis as in 1962, as described in the Board's letter of June 5, 1962. It is understood that the Comptroller of the Currency will interpose no objection to such collection by the Reserve Banks.

Forms for all member banks listing their branches outside the head office city (opened before April 30) will be forwarded as soon as available. Branches opened after April 30 should be added to the forms at the Reserve Banks. Reporting banks will again be given the option of reporting deposits by cities rather than individual branches. Banks having large and widespread branch systems should be advised in advance that these data will be collected as of June 30. Draft copies of this form are also attached.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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Item No. 3
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1964.

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

Dear Mr. Cohn:

This is to request clearance by your Agency of a reconciliation statement to collect certain supplementary condition report statistics from all national banks to permit derivation of consistent summary information for all Federal Reserve member banks and all insured commercial banks and to provide consistent balance sheet data for individual banks of all classes. Three copies of your Form 83 and the proposed form together with the required supporting statement and copies of the related condition report forms are enclosed.

Mr. E. T. Crowder of your Office has been kept appraised of developments regarding these statements and the unsuccessful negotiations between the three Federal bank supervisory agencies to obtain a uniform or compatible report form for the midyear call. A staff memorandum dated March 20 to Mr. Crowder summarized developments up to that time. Since then, discussions on the subject have continued and Mr. Raymond T. Bowman, Assistant Director for Statistical Standards, and Mr. Crowder were furnished copies of interagency correspondence on the subject.

The Comptroller of the Currency has informed us that he will use a form for the midyear call that will be the same on the face of the report as that used for the April 15 call. The back of the form containing the detailed schedules of loans, government securities, cash assets, and deposits will have the same format as for State banks, although the content of some items that are related to revised items on the face will vary. The face of this report differs in several important respects from that used by State banks, as indicated in the accompanying supporting statement.

Although tabulation of the national bank call in this format was made for April 15, when information from the face only was collected, the task required substantial time and effort at the Reserve Banks and

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an unusually large amount of time on the Board's computer. The special tabulation not only required complete revision of established processing procedures at the Reserve Banks and the Board, but compatible summary statistics could be achieved only by estimating for each national bank the corporate stock holdings, the amount of repurchase or resale agreements in effect at the call date at banks in the weekly reporting member bank series, and the amount of mortgages or other liens outstanding at individual banks. It was also necessary to adjust Federal Funds transactions and direct lease financing items reported separately in the national bank report to a basis consistent with that reported by all insured State banks, and to adjust the fixed asset items in the State reports to a basis consistent with the national bank reports. This estimating and adjusting was done by Board staff at substantial additional cost.

The resulting estimates presumably were fairly accurate for April 15 since the missing items--corporate stocks and mortgages or other liens on bank premises and other real estate--were reported at the December 20 call. Inconsistencies with respect to reporting repurchase and resale transactions were adjusted through use of data reported in other series available at the Board. However, the estimating procedure with respect to repurchase/resale transactions used for the April 15 call depended on a Wednesday call date and use of the weekly reports of condition and would not be reliable when applied to a June 30 call. Use of the December call as a bench mark in estimating corporate stocks and mortgages and other liens would not provide reliable estimates in June, especially on an individual bank basis.

As noted in the enclosed supporting statement, reliable and consistent data for individual banks of all classes and consistent summary information for the banking system is necessary for continuing statistical programs in use at the Reserve Banks and at the Board, and for research projects conducted by others. In the absence of a reconciliation statement from national banks, use of individual bank data for the different classes of banks for comparative purposes would be precluded since the differences in reporting procedures affect total loans and investments reported for each national bank as well as reported asset and liability totals for some of the national banks. Summary statistics compiled from reports of banks reporting on different bases also have limited usefulness.

Since the required data can be collected with a minimum of effort and a minimum burden on respondent banks, it is felt that the benefits far outweigh the problems involved.

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Because of serious time limitations to prepare for the mid-year call, the Board would appreciate favorable consideration of this form at your earliest convenience. Delay in presenting this request for clearance resulted from the fact that we were advised only a few days ago of the format of the national bank condition report form.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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BOARD OF GOVERNORS
OF THE
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1964.

MEMORANDUM FOR:

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

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

A. Justification of Form in its Relation to Operating or Research Programs

The attached slip-sheet reconciliation statement is required to collect information from national banks that will permit derivation and tabulation of consistent June 30 bank condition data for all Federal Reserve member and all insured commercial banks. The data to be collected will be used to adjust data reported on the national bank condition report form which will in turn be combined with similar information derived from call reports of State banks submitted on form FR 105, the condition report form for State member banks of the Federal Reserve System, and Federal Deposit Insurance Corporation form 64 used by insured nonmember State banks. These summary tabulations are the only source of universe commercial bank balance sheet data and are widely used by economists, financial analysts, and others in Government and elsewhere. They are required by the Board in the conduct of its responsibilities for monetary policy and as bench mark data for many related current series. In addition, loss of consistent condition information for all classes of individual banks would seriously hinder any economic, legal, or business analysis requiring such information.

The face of the national bank form differs in the following respects from the face of the form to be collected from all insured State banks.

1. Loan and investment items, although reported net of valuation reserves as in the State forms, are not completely comparable in that repurchase and resale transactions are to be treated as outright sales and purchases of securities, and are no longer to be reported as borrowing or lending transactions. These differences also apply to the related loan and security items in schedules on the back of the form.

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2. Corporate stocks (including Federal Reserve Bank stock) have been deleted and combined with "other assets" as was done in the national bank form for the September 30, 1963, call.

3. The liability item reflecting mortgages or other liens on bank premises and on other real estate has been deleted and any such amounts are to be netted against the new fixed asset item.

4. Three items reflecting bank premises owned and furniture and fixtures, real estate owned other than bank premises, and investments and other assets indirectly representing bank premises, have been combined into a single item called "fixed assets."

5. In addition, there are the continuing differences that were instituted beginning in September (separate reporting of Federal Funds transactions under assets and liabilities and of direct lease financing under assets) which can be adjusted in the editing and tabulating process.

Additional information is required to permit adjustment for the first three of these differences. The last two can be adjusted to a compatible basis in the editing and tabulating process without additional information from national banks and without loss of any important summary or individual bank information.

Repurchase or resale transactions in effect on the call date probably involve few banks, but the amounts involved are large when considered in relation to individual banks, if not in national totals. On April 15, 1964, when such information was collected by the Reserve Banks directly from a few national banks known to be active in this area, it was found that 10 banks held $137 million in securities purchased with agreement to resell and 3 banks had sold $57 million of securities under agreements to repurchase. The number of banks and the amounts involved may vary widely from day to day and there are indications that the number of banks engaging in these transactions may be increasing. Since the end of 1962 the weekly average of amounts involved in these transactions have varied between $92 and $352 million at 37 banks reporting in the Federal Funds series. When the amounts of securities sold under repurchase transactions are included in individual national bank reports on a basis consistent with reporting procedures in previous years, and on the basis on which they are reported by State banks, the effect is to increase both total assets and total liabilities in the banks' reports. Inconsistent reporting of securities purchased under resale agreements results in these transactions being shown as loans by State banks and as securities by national banks.

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Corporate stock holdings of all national banks must be determined in order to derive individual national bank figures and summary national bank data for aggregate loans and investments (total earning assets) which are consistent with those for other classes of banks. Current information on mortgages or other liens on bank premises or other real estate is required to derive individual national bank and summary national bank data for total assets and total liabilities which are consistent with those for other classes of banks.

Any uses of individual bank data, and there are many, are seriously affected by such inconsistencies between the various classes of banks. The total of earning assets and consistent figures for total assets and total liabilities for individual banks are important to the computation of operating ratios. These are furnished to each member bank and this has become a widely used and highly popular service to these banks. It is probable that continuation of this service would alone justify to national banks the nominal additional added reporting burden imposed by the form.

In addition to their use in operating ratio analysis, comparative individual bank data are widely used in economic research and market analysis and other studies made incident to applications to merge or establish branches. Obviously, these uses would be seriously hindered if data for individual national and State banks differed in these fundamental and important respects.

Since the required data can be collected with a minimum effort and a minimum burden on respondents, it is felt the benefits far outweigh the problems involved.

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

This form will be collected from all national banks in the United States (about 4,600) that report to the Office of the Comptroller of the Currency on Form 2130-A. Direct mail collection from national banks is the most feasible method of deriving this information since national banks will be able to submit the form with the usual copy of the related Form 2130-A to their Federal Reserve Banks.

C. Brief Description of Plans for Collection, Tabulation and Publication

It is planned that this form will be used only for the forthcoming midyear call date and the data will be used to adjust the Reserve Bank's copy of the official national bank condition report to a basis consistent with that submitted by State banks. Adjusted national bank data will be keypunched at the Reserve Banks and tabulated with information from State banks on the Board's computer. Summary data will be published as usual in the summary report of assets and liabilities of member banks and in the Federal Reserve Bulletin as well as used internally by the Board staff and the staffs of other Government agencies.

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

The format was determined by the staff of the Federal Reserve Board and was drafted to obtain the absolute minimum amount of information that would permit derivation and tabulation of only the items absolutely required. Since the form of the national bank condition report and thus the nature of the items that would be needed was not known until very recently, time did not permit prior discussion of the format of the proposed form with anyone outside the staff of the Federal Reserve Board.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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Item No. 4
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1964.

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

Dear Mr. Cohn:

Enclosed are three copies of your Form 83 and the proposed form to request clearance of a survey of deposits at branches of banks as of June 30, 1964, to be made on the same basis as in June 1962. Data collected will be used in the publication of the booklet "Distribution of Bank Deposits by Counties and Standard Metropolitan Areas" that has been published periodically by the Board since 1947. The data obtained will also be used for important internal regulatory and statistical purposes.

The program was expanded in 1962 to require reports of deposits by cities for branches outside the head office city rather than the county totals that had been collected previously. These new data have been widely used for internal purposes by the Federal bank supervisory agencies, although outside publication was limited to county totals. It is apparent that the expanded survey did not increase, and may even have reduced, the reporting burden on the respondent branch banking systems.

For the 1962 survey, report forms listing the branches for each of the 1,895 banks with branches outside head office city were prepared at the Board. Since this resulted in accurate reporting, and the forms can now be prepared directly from punch card records, it is planned to repeat this procedure. Respondents will again be given a choice of reporting individual branch data or totals of branches grouped by cities, but it is expected that most banks will report individual branch data. The deposit items proposed are also the same as in previous years: demand deposits of individuals, partnerships, and corporations; time deposits of individuals, partnerships, and corporations; other deposits; and total deposits. Estimates will be permitted where centralized bookkeeping arrangements cross city lines. Advance notice of the survey to respondents is also provided.

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As in 1962, it will be necessary for the Federal Reserve Banks to collect branch deposits data from national member banks. The Federal Deposit Insurance Corporation has advised that it will collect branch deposits data from nonmember State banks on the same basis.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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Item No. 5
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 18, 1964.

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Hayes:

In a letter of January 17, 1964, the Board advised Mr. Philip A. Loomis, Esq., General Counsel of the Securities and Exchange Commission, of its view that the volume of general lending by three New York foundations, the Winfield Baird Foundation, the David, Josephine, and Winfield Baird Foundation, and the Lansing Foundation ("the Baird Foundations"), was such as to suggest that the Baird Foundations could be regarded as engaged in the business of extending credit within the meaning of section 221.3(j) of Regulation U. The information on which this letter was based was drawn from Chapter II of the report of a subcommittee of the Select Committee on Small Business on "Tax-Exempt Foundations and Charitable Trusts: Their Impact on our Economy", of October 16, 1963, which had been submitted to the Board by Representative Patman for comment.

A number of the lendings by the Baird Foundations detailed in the report were for the purpose of purchasing or carrying securities registered on national securities exchanges, and lendings of this type were outstanding on or after December 15, 1959, the effective date and period for determining applicability of the reporting requirement imposed by the Board pursuant to section 221.3(j) of Regulation U. Based on these facts, the Board advised Representative Patman (in a letter also dated January 17, 1964) and the Commission that it appeared the Baird Foundations should have filed on Form FR 728 the reports authorized by section 221.3(j) and called for by 12 CFR 221.51.

The Commission's staff has informally advised the Board's staff that it would facilitate the Commission's task of enforcing the Regulation and the underlying sections of the Securities Exchange Act of 1934 if the Board were to advise the Baird Foundations of its view that the component organizations are subject to the filing requirement. Accordingly, it would be appreciated if your Bank would so advise the

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three organizations involved and inform the Board of their response. The Patman Report does not give local New York City addresses for the organizations comprising the Baird Foundations, but it states that Mr. David G. Baird, of Baird & Co., a member organization of the New York Stock Exchange, told the Committee that he alone was responsible for their operation. Accordingly, it is assumed that they can be reached through the offices of Baird & Co.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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2170

Item No. 6
6/18/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1964

Mrs. Valerie R. Frank,
Secretary, Retirement System
of the Federal Reserve Banks,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mrs. Frank:

This refers to the Board's letter of May 31, 1963, interposing no objection to incorporating into the Board Plan the increased benefits provided by Public Law 87-793 approved October 11, 1962, and requesting that the Board be billed by the Retirement System on a pay-as-you-go basis for the cost of similar benefits for Board Plan annuitants during the 18-month period, January 1, 1963, through June 30, 1964.

Although legislation has not been approved to date by Congress to enable the Civil Service Retirement and Disability Fund to fund these benefits, there is every evidence to believe that an appropriation will be made to take up the cost for another fiscal year and a strong probability that the Civil Service Commission will be authorized to continue the liberalized payments after June 30, 1964, by means of a concurrent Resolution of both Houses of Congress, pending consideration of the budget for the fiscal year 1965. It is therefore requested that the Board continue to be billed on a pay-as-you-go basis for the cost of these benefits for the period July 1, 1964, through June 30, 1965. In this regard, it is understood that this cost will be in the neighborhood of $26,000 for the period involved.

It is further understood that you will continue to bill us at the time of retirement for the supplements which are added to each retirement depending on the year in which the employee retires.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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Item No. 7
6/18/64

BOARD OF GOVERNORS
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 18, 1964.

CONFIDENTIAL (FR)

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of June 12, 1964, the Board approves the appointment of Bruce E. Dean as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

It is noted that Mr. Dean is indebted to Seattle National Bank, Seattle, Washington. Accordingly the Board's approval of the appointment of Mr. Dean is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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