

FEDERAL RESERVE BOARD

119

WASHINGTON

X-3318

February 2, 1922.

SUBJECT: Right of Directors of Federal Reserve Banks and
Branches to Examine Reports of Examination of
Member Banks.

Dear Sir:

I am transmitting herewith, for your information, copy of a letter from the Comptroller of the Currency on the subject of the right of directors of Federal Reserve Banks to examine reports of examination of member banks made by national bank examiners.

I may say that the Board concurs in the views expressed by the Comptroller, although the appointed members have not heard any of the complaints to which the Comptroller refers. It is suggested that as far as practicable the same rule be adopted with respect to reports by Federal Reserve Bank examiners as the Comptroller desires to have followed with respect to reports by national bank examiners.

It seems to the Board that directors could be informed of the conclusions of the Federal Reserve Agent and the Governor of the Bank as to information contained in the reports without going into detail and that these general conclusions could be furnished officers and directors of branch banks for their guidance.

Very truly yours,

G o v e r n o r .

Enclosures.

CHAIRMEN ALL F.R. BANKS.

C O P Y

TREASURY DEPARTMENT
Washington

January 30, 1922.
X-3318a

Office of
Comptroller of the Currency

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

My dear Governor:

Directors' right of access to Reports
of Examination.

I have had under consideration the letter of John Perrin, Chairman of the Board of the Federal Reserve Bank of San Francisco, and the opinion of Assistant Federal Reserve Agent in the matter of the right of directors for the inspection of reports made by National Bank Examiners. I have gone into the question presented by Mr. Perrin quite fully and I find that I am unable to agree with Mr. Perrin in his contention.

A proper rule appears to have been laid down on December 22, 1914, in a letter from Mr. Delano to the then Comptroller of the Currency, which reads:

"Information contained in National Bank reports of State Bank reports, should be available only to the National Bank Examiner, the Federal Reserve Examiner duly authorized to examine the Federal Reserve Bank and member banks in the respective districts, the Federal Reserve and Deputy Federal Reserve Agents, all of whom are government representatives. The Governor of the Federal Reserve Bank should, of course, have access to the Credit Bureau Files but under no circumstances should any information contained in the Bank Examiner's reports be open for the inspection of the directors of any Federal Reserve Bank, and except those above referred to".

"I think the important thing to bear in mind is the Federal Reserve Agent is just as much a government official as the Chief Examiner, and, while the Chief Examiner reports direct to the Comptroller of the Currency, who is in turn ex-officio member of the Federal Reserve Board, the Federal Reserve Agent reports direct to the Federal Reserve Board".

It would appear that thus early in the organization of the Federal Reserve System the construction was placed upon the right of directors to see the reports adverse to the contention of Mr. Perrin, and I find that such construction was transmitted by Mr. A. C. Miller to Federal Reserve Agent Perrin at San Francisco, in the words following:

"Referring to the attached letter from Federal Reserve Agent Perrin of San Francisco, this office for the present is willing to grant the Federal Reserve Bank of San Francisco permission to furnish the manager of the Spokane branch of that bank copies of the reports of examinations of national banks located in the territory assigned to the branch. These copies, however, should be furnished to the Manager in confidence and he should be instructed that they are for his information and the information of his credit staff only, and are not accessible to the members of the Board of Directors of the Branch bank".

I am quite convinced that the rulings heretofore made are both correct in law and in principle. It certainly never was intended that bankers who were elected to serve on the Federal Reserve Bank Boards should have access to the inside of banks which were competing with their own banks and in which they might for some motive desire information. It rather begs the question to say that these men who are elected from banks as Class A and B directors are honorable men and would not use the information secured for personal advantage or for interference in the affairs of such banks whose reports they would examine. That, of course, is the high ideal that in all such transactions should be followed; but the Class A and B directors are human beings, and while many no doubt do regard the right to look into the reports of the examiners as sacred and one which should not be used to the disadvantage of the bank, yet I have personal reasons to know that there are exceptions to that rule, of which I have had serious complaint.

It would seem that the directors should not demand the privilege of looking into these reports as a matter of right. If the Chairmen of the Federal Reserve Banks are not capable of passing upon these reports so as to give correct information to the Board, then it would be my opinion that a Federal Reserve Agent should be secured who had such capability, and it seems to me that the Board should in all cases be guided by the determination of the Federal Reserve Agent and perhaps the Governor of the bank as to whether or not a member bank is entitled to credit it seeks. Certainly, the information should not be peddled to the boards of directors of the various banks, and by them in turn peddled to the boards of directors of the branch banks. It is my opinion that the information the branch banks get should be the direction from the Governor and Federal Reserve Agent of the parent bank and not by such branch bank directors having copies of the reports for their inspection and very often misuse.

I have just recently had coming from one of the big cities complaint that the reports of the National Bank Examiners were being improperly used. This information comes to me in a way that I am not at liberty to give details, but it is quite sufficient to enable me to come to the conclusion that there should be some more rigid regulation as to who should inspect reports. I am clearly of the opinion that such inspection should be limited to the Federal Reserve Agent and the Governor of the bank, and that their conclusions as to the information contained in the reports and not facts, should be given to such officers as are entitled to such information for their guidance and for the guidance of the officers of the branch banks.

I am further clearly of the opinion that the copies of these reports should not be and must not be delivered to branch banks for the use of the officers of the branch banks, and it is my view in this respect that only the conclusions as to the merits and solvency of the bank should be transmitted to the officers of such branch banks with such directions as the parent bank desires to give.

I do not desire, of course, to be captious or technical in laying down these rules as I think they should be, but I think that such regulations are important to the welfare of the Federal Reserve Banking System and necessary to inspire confidence with member banks that the inside of their institutions will not be peddled or improperly used. I think it is quite easy to understand that facts where they are known to too many persons are quite likely to leak out, and for that reason I am of the opinion that it is highly important and proper that the regulations I am suggesting should be enforced and lived up to religiously.

Respectfully submitted,

(Signed) D. R. Crissinger, Jr.