

REC'D IN RECORDS SECTION
December 9, 1969
APR 13 1970
400.4

TO: Governor Sherrill
FROM: Task Force on Bank Merger and
Holding Company Applications

SUBJECT: Proposed program for
dealing with bank merger and
holding company applications

12/9/69

SUMMARY AND RECOMMENDATION

It is the opinion of most of the members of the Task Force that the Board's present organizational structure for handling bank merger and holding company applications is not capable of dealing adequately with present and prospective increases in work load in that area. Such increases have been sizable in recent years as the number and complexity of bank merger and registered bank holding companies has grown, and there is every reason to expect that this trend will continue, even under current law. Beyond this, however, substantial further increases will result from the anticipated enactment in mid-1970 of the one-bank holding company legislation.

After consideration of the problems involved and the alternatives to the present system available, the Task Force has outlined the following five alternative organizational arrangements to deal with the situation:

- (1) Retention of the organizational status quo
- (2) Consolidation of merger and holding company case work and analysis in an existing Division
- (3) Establishment of a new Division
- (4) Appointment of a program director
- (5) Establishment of a Program Management Committee to coordinate the Banking Structure Program

For the reasons set out below, a majority of the Task Force favors the creation of a Program Management Committee and recommends

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that the Board approve the immediate establishment of such an arrangement. A description of how the suggested Program Management Committee might operate is contained in Attachment A.

Irrespective of the type of structure that the Board ultimately approves, the Task Force unanimously recommends that the Board delegate authority to approve certain bank merger and holding company applications to an official or officials on the Board's staff.

DISCUSSION

It has become increasingly clear that a reevaluation of the present procedures at the Board for handling merger and holding company applications is needed. The criticisms which have been forthcoming from a variety of areas regarding the length of time required for Board action on such applications have emphasized the need for such a reevaluation. While other aspects of the procedures have not been brought into direct question, there is a recognition that they could almost certainly be improved.

Moreover, there is widespread agreement among the staff that present organizational procedures will not be capable of coping with the large increases in the number and complexity of applications that appear to be ahead and, therefore, some changes in such procedures will be imperative. A massive increase in work load will probably result from the expected passage of pending legislation regarding bank holding companies. It is expected that the Federal Reserve will continue to have sole jurisdiction over this area, involving a much larger case load and the necessity to make judgments and decisions in essentially

new areas to the extent that bank holding companies are permitted nonbank acquisitions. But even in the unlikely event that no such legislation is enacted, the continuing increase in case load even under existing law calls for a reconsideration of organization and procedure. Table 1 on page 4 presents data on case loads in both the merger and holding company areas for the past two years, as well as projections for 1970.

In recognition of the current problems and likelihood they will increase in the near future, this group's assignment has been to formulate alternative proposals for appropriate organization and procedures to meet the situation. While the original charge was directed at merger and holding company applications, the Task Force concluded that in the interests of efficiency any procedures herein developed should be applied to all banking structure matters, including branches, competitive factors reports and membership applications.

Major Functional Problems

The group agreed early in its deliberations that at least six major functional problems existed in the handling of merger and holding company applications. These are:

- (1) Insufficient staff personnel to handle properly the volume of work.
- (2) Overlapping and duplication of work.
- (3) Need for increased knowledge or expertise on the part of staff assigned to cases, especially as the bank holding company area rises in importance.

Table I
 Bank Merger and Holding Company
 Cases Acted Upon by
 Board of Governors
 Federal Reserve System
 1968-1970

	1968	1969	1970 (projected)	
			without legislation	with legislation
Bank Merger Cases				
Board-decided	15	22	25	25
Competitive factor				
Phantom Bank	18	80	50	25
Other	<u>154</u>	<u>160</u>	<u>175</u>	<u>175</u>
Total Merger Cases	187	262	250	225
Bank Holding Company Cases				
Formations	9	20	25	50
Bank Acquisitions	35	63	150	208
Nonbank Acquisitions	<u>0</u>	<u>0</u>	<u>0</u>	<u>405</u>
Total Bank Holding Company Cases	<u>44</u>	<u>83</u>	<u>175</u>	<u>663</u>
Total Cases	231	345	425	888

Sources: Division of Supervision and Regulation; Banking Markets Section, Division of Research and Statistics.

Note: The estimates incorporated in this table are not in every case based on precisely the same assumptions. This plus the general uncertainties in the area dictate that the numbers presented be viewed as suggestive rather than definitive.

- (4) Inadequate centralized direction of case processing.
- (5) Over-detailed consideration of all individual cases in the absence of generally accepted guidelines for distinguishing between difficult cases and those which are fairly clear cut.
- (6) Time gap between completion of staff memoranda and Board action, and subsequent time spent on preparation of statements, including concurring and dissenting ones.

These problems are believed to arise in varying degrees in the handling of the present case load in this field, and they will be very much aggravated by the much larger work load looming ahead.

Alternative Organizational Arrangements

To ameliorate the above problems, the Task Force has concluded that five alternative organizational arrangements are possible. Each is described below with the key strengths and drawbacks outlined.

- (i) Retention of organizational status quo. The first and most obvious would be simply to retain the organizational status quo with each of the three involved divisions-- Research and Statistics (through the Banking Markets Section), Supervision and Regulation, and Legal--continuing to assume responsibility for relevant portions of the work with such enlargements in staff as prove necessary. The major advantage of this choice would be that it retains "going concern" advantages. In and of itself it would not alleviate the functional problems cited

above, except perhaps that involving the burden of work, but certain procedural changes short of major reorganization could probably contribute toward some of these goals. On the other hand, one of the most troublesome of the present problems, specifically the inadequacy of centralized direction, would be almost impossible to ease without major changes and could, in fact, be exacerbated by the larger number of people involved.

- (ii) Consolidation in an existing Division. The second alternative would consolidate all aspects of case work and analysis in one of the three existing Divisions now involved. As in the retention of the status quo although to a somewhat lesser extent, this alternative would take advantage of going concern benefits with respect to the selected Division; on the other hand, such benefits would be lost in the other two cases. Unlike the status quo, it would make specific provision for centralized direction. Major disadvantages stem from the potential difficulties that might be encountered by professionals working for a Division not concerned primarily with their specialty. Reluctance could arise from this source both in the transfer of existing personnel and in the recruitment of new. It is conceivable that the difficulties could be lessened if the underlying difficulties were recognized and specific

provisions were made to allow opportunities to do research or participate in important cases involving Board policy, perhaps including a regular schedule of rotation into and out of the Division. But this represents a clear disadvantage which must be considered.

(iii) Formation of new Division. A third alternative, one also providing centralization, would be the formation of a new Division charged with responsibility for all aspects of banking structure. This move would provide dramatic evidence of the perceived importance of this area of the Board's work. More practically, it might decrease some professional concern of the kind just discussed, although some such reluctance would no doubt continue, probably more in the case of transfers than with newly employed personnel. On the clearly negative side, it would limit substantially going concern benefits and thereby necessitate a major readjustment, for instance in the area of communications with Reserve Banks. At the same time, this readjustment once accomplished would be of a permanent and inflexible nature, making it difficult to make further changes later, the need for which seems almost inevitable in view of our present incomplete knowledge of the nature and magnitude of the work and problems we will face.

(iv) Appointment of a program director. A fourth possibility, the appointment of a program director, would introduce a means of centralized direction while retaining the present three existing Divisions assigned to work on banking structure matters. The program director would be responsible for scheduling and maintaining an orderly and expeditious flow in the processing of cases throughout the course of their consideration, taking whatever steps proved necessary to ensure that their treatment was both prompt and careful. The program director would remain in close contact with Reserve Banks regarding the volume and treatment of incoming cases. He would serve in an advisory capacity as regards the resources assigned to cases at the Reserve Bank level, but would be directly responsible at the Board for arranging for the necessary staff resources from the Divisions to handle case work in accordance with the processing schedules established. The professionals involved would, however, remain under the umbrella of their own Divisions, and any problems which might arise regarding the adequacy of available staff resources would be settled through negotiation with the relevant Division director. Related personnel matters, such as recruitment, salary, individual work assignments, etc., would continue to be the responsibility of the respective Division directors, although

they would be guided in these decisions by the needs and suggestions of the program director.

The program director would not try to extract a single view on a case from the staff of the Reserve Bank or the Board's staff. The presentation of the case could, however, be capped by an overall recommendation for action from the program director.

In addition to his responsibilities in the day-to-day processing of cases, the program director would direct more general supporting studies in the area of banking structure and would have overall responsibility for planning, organizing, coordinating, and evaluating the program.

The program director arrangement would retain many aspects of the status quo and therefore should profit from going concern advantages. It would allow professionals to remain employed by the Divisions of their specialty, so that reluctance of the kind cited earlier should be lessened. On the other hand, recruitment, as well as other operating aspects, could be complicated by the apparent overlap of responsibility and authority involving the program director and the three Division directors. The success of this arrangement would be dependent upon a clear delineation by the Board of the role of the program director.

- (v) Establishment of program management committee. The final alternative identified by the Task Force is to establish what might be called a "Program Management Committee for Banking Structure." This committee would be responsible for the orderly scheduling of bank holding company and merger case work at the Board and for the coordination of Divisional efforts on specific cases. It would also have the responsibility, working through the respective Divisions, for encouraging the Reserve Banks to achieve maximum expedition, consistent with adequate quality, in the processing of cases.

In addition to these responsibilities in the ongoing case work, the Committee would have overall responsibility for planning and evaluating the entire banking structure program, providing a forum for discussion of ways to improve the efficiency of efforts in this area. The committee would also plan for supporting studies in the area of banking structure and for the development of principles and guidelines for present and future operations.

The committee would be composed of one official (and in his absence or unavailability an alternate) each from the Division of Research and Statistics, the Division of Supervision and Regulation, and the Legal Division; these would be officials with primary

responsibility for the banking structure work within each of these Divisions. The committee would be assisted by a program analyst drawn from the Office of the Controller, but otherwise it would have no staff of its own. It would not have authority to allocate resources in the Divisions involved in the processing of cases, but rather would operate in consultation with appropriate Division officials to coordinate and expedite the work flow. How this arrangement might operate is discussed more fully in Appendix A, attached.

The program management committee would represent the least drastic change from present arrangements and therefore should profit from going concern advantages. It would also enable the staff to obtain needed experience in this kind of coordinated effort without dislocating the present structure too severely. It could be an interim measure or "half-way house," permitting a later move to a program director, to a new Division, or even back to the present setup if any one of these alternatives proves appropriate. The initial move would allow professionals to remain employed by and clearly assigned to the Divisions of their specialty, so that difficulties of the kind cited earlier should be minimal.

Conclusion Regarding Organizational Arrangements

Each of the above alternatives has both strengths and drawbacks, the relative importance of which are to some extent a matter of judgment,

and, in fact, certain of which are evaluated differently by individual members of the Task Force. The group is in near unanimous agreement, however, that the present structure is not capable of coping adequately with the prospective increase in the number and complexity of applications.

This view has resulted in a recommendation that some move to centralization be instituted, although varying opinions exist as to the appropriate extent for such a move. Because of this difference, in light of the recognized uncertainties in the area and for the reasons cited above, the Task Force has concluded that the program management committee arrangement should be adopted.

Functional Changes to Improve Performance

Within whatever organizational structure is approved by the Board, the Task Force sees several types of functional changes that could be introduced to improve performance. Some of these, however, are better accomplished under one organizational form than another, and another factor influencing the Task Force's decision to recommend the program management committee arrangement was this form's apparent ability to permit optimal utilization of these functional changes, at least in the transition period.

Four broad functional approaches to staff organization have been suggested. These approaches are: (a) increases in staff; (b) centralization of direction; (c) delegation of authority; and (d) selectivity in staff assignments. Each of these involves a somewhat different concept, but they are not necessarily mutually exclusive and in fact the Task Force sees the possibility of profitably adopting at least a facet of each in designing a satisfactory organizational setup.

(a) Increases in staff. The addition of more personnel seems inevitable if we are to be responsive to demands under either existing or proposed law; the precise number of staff needed may be dependent in some part on the organizational arrangements adopted, however. It seems reasonable to expect that alternatives (ii) through (v) as outlined above would require a somewhat smaller increase to achieve any given degree of efficiency in case processing than would an attempt to maintain the organizational status quo. Further, since this reduction of needs presumably stems from the introduction of centralized direction and the functional efficiencies that thereby become available--e.g., selectivity and delegation, as discussed below--it would seem that the greater the degree of centralization the smaller the minimum necessary increase in staff. Beyond these very general suggested relationships, however, it is impossible to make any concrete projections regarding either absolute or relative staffing needs over the long run.

Some estimates regarding staffing needs in the very short run and under the present organizational structure may be drawn from the requests already made by the three relevant Divisions on the assumption that one-bank holding companies will become subject to the Board's supervision. A total of 32 positions (24 professional and 8 supporting) have been requested. The inter-Divisional breakdown is as follows: Legal, 8 (5 professional and 3 supporting); Supervision and Regulation, 12 (10 professional and 2 supporting); and Banking Markets, 12 (9 professional and 3 supporting). To put these numbers in perspective,

Legal currently has the equivalent of 7 positions devoted to its bank holding companies program, Supervision and Regulation an estimated 19 positions, and Banking Markets approximately the equivalent of 8; this yields a total of 34 which would be almost doubled by the addition of another 32. The total budgeted 1970 costs for the 32 new positions (plus attendant increases in fees for hearing examiners and travel and equipment costs) is approximately \$270,000. It is estimated that the comparable figure for full-year costs in 1971 would be in the range of \$400,000 to \$450,000.

(b) Centralization of direction. As noted above, the Task Force sees an unavoidable need to provide centralized direction in the processing of cases if the prospective increase in workload is to be successfully met. This need underlies each of the alternative organizational setups (ii) through (v) as discussed. It should also be emphasized that the benefits perceived in the functional changes of delegation and selectivity, as discussed below, can be effectively realized, it is believed, only if accompanied by some degree of centralization.

(c) Delegation of authority. Delegation of authority to approve simple clear-cut bank merger and holding company acquisition cases could be to the Presidents of the Federal Reserve Banks and/or to the appropriate official or officials on the Board's staff. Such a delegation would save substantial staff time in the preparation of material for Board consideration in such cases as well as the time of the Board itself. Guidelines for screening applications and selecting

those appropriate for delegation would need to be established by the Board. Criteria employed should be such as to ensure that the cases delegated are limited to those which (a) involve the acquisition of only relatively small banks, (b) have little or no competitive impact, and (c) pose no significant controversial questions. Some suggested initial criteria are discussed in Appendix B, attached.

The delegation of authority to the Reserve Banks could not be expected to involve any saving of staff time at the Banks. In fact, it might well increase the demands on Bank staff, since it might prove that additional analytical effort was needed on cases approved by the Banks and they would have the additional task of preparing statements justifying approval of applications. The involvement of Board staff in these cases would be substantially reduced, although they would presumably carry on some degree of continuous review of Reserve Bank decisions to achieve a reasonable uniformity among Districts and to ensure that the appropriate criteria were being observed.

While the single issue of conservation of the workload on the Board and its staff would thus favor delegation to the Reserve Banks, other considerations would seem to the Task Force to weigh more heavily in favor of the other course, at least as an initial step; that is, toward delegation to an official or officials on the Board's staff. Such a delegation would eliminate the possibility of interdistrict variations in decisions. It would also help to mitigate problems which can occasionally result from the inevitable pressures on Reserve Banks arising from their day-to-day working relationships with individual

commercial banks. Board staff delegation also would have the advantage of daily contact between the delegees and the Board on undelegated cases which would make for consistency in the treatment of both delegated and undelegated cases.

(d) Selectivity in staff assignments. It is believed that both economists and lawyers should continue to do case work on a selective basis--that is, with the extent of their involvement and the decision as to whether individual memoranda are required dependent in part on the nature and importance of the case. Possibilities for augmenting this procedure should also be examined. Selectivity has the advantage of permitting these professionals to concentrate on those cases which raise important issues in their fields, thereby assuring the Board a thorough analysis of difficult cases. Further, selectivity frees some time for them, the economists especially, to do both short- and longer-term research and to undertake a variety of special projects in which their comparative advantage can be brought to bear and which should be integrated into case evaluation on a day-to-day basis.

Although selectivity on case work is desirable, it will probably be advisable for economists and perhaps the lawyers to prepare memoranda on a relatively high proportion of the early holding company acquisition cases involving non-banking activities. When the Board's staff begins to evaluate such cases it will be necessary to develop a framework of analysis and it is important that economists and lawyers participate in this development, involving themselves in individual cases and the development of guidelines to the extent necessary.

Final Comment

The Task Force would not presume that the package now being presented to the Board represents an exhaustive study of all the relevant aspects of the area under consideration. This memorandum was prepared in a very limited time period and in many of its facets represents simply the transference to writing of judgments arrived at orally in discussion at meetings.^{1/} However, it is believed that all the key facets of the issue have been touched upon and that the suggestions contained herein represent the considered judgment of the group within the constraints imposed by limited time and resources.

There is attached as Appendix C a draft letter which might be sent to each Federal Reserve Bank; the Task Force believes that a part of orderly planning for the prospective increase in case load must be similar efforts at the Reserve Banks and the proposed letter is designed to encourage such action.

It should also be noted that this memorandum presents the consensus view of the Task Force. Certain individual members may disagree with all or part of the recommendations contained herein and reserve the right to present differing views in separate memoranda or orally.

Mr. Holland, Chairman,
Mr. Egertson
Mr. Forrestal
Mr. Halley
Mr. Kakalec
Mr. Lawrence
Mr. Leavitt
Mr. Lyon
Miss McCaslin
Mr. McClellan
Mr. O'Connell
Miss Ormsby
Mr. Shull
Mr. T. Smith
Mr. F. Solomon

^{1/} A number of brief and editorially unpolished supporting papers were also prepared and are available for the inspection of any interested Board members.

Appendix A

Outline of Operations of Proposed

Program Management Committee

Banking Structure Program

The Program Management Committee concept envisages the retention of the current three Division involvement in case analysis, but with the introduction of a greater degree of staff coordination and centralized direction.

The Program Management Committee would be an inter-Divisional group consisting of those three high level officials (below Division directors) of the Division of Research and Statistics, the Division of Supervision and Regulation, and the Legal Division respectively, presently having primary responsibility for the banking structure work within each of these Divisions, assisted by a program analyst drawn from the Office of the Controller. One of the above officials would serve as Chairman of the Committee, and each should have a specified alternate to act as a member of the Committee in case of his absence or unavailability. Each of the members of the Committee would retain his connection with his present Division, continuing to fulfill other responsibilities in that Division, and his activities on the Program Management Committee should not be allowed to interfere with his function as a Division official.

The Program Management Committee would be responsible for scheduling an orderly and expeditious flow in the processing of cases

through the point at which a decision has been arrived at by the Board and the resulting order and statement have been issued. This activity would begin as, in consultation as necessary with the Reserve Bank, the Committee reached a tentative judgment as to how much time and effort might be required at the Board for the processing of a recently arrived application. Such a judgment would provide coordinated guidance (not binding) to the respective Division heads in their decisions as to the timing and amount of staff resources to commit to each case. If processing subsequently fell behind schedule, the Program Management Committee would inquire into the reasons therefor and try to effect an expeditious conclusion of staff work on the case. As a part of this responsibility, the committee, working through the respective Divisions, would encourage the Reserve Banks to achieve maximum expedition, consistent with adequate quality, in the processing of cases. To keep the Board apprised of developments in this area, the Committee should report to the Board monthly on cases handled, elapsed time per case, causes of significant delays, and possible recommendations as to improvements in processing procedures, either at the Board or at the Reserve Banks.

The Program Management Committee should not try to extract a single view on a merger or holding company case from either the staff of the Reserve Bank or the Board's staff. There may well be differing views among the experts assigned to the case at either location, and the Board itself should be allowed to hear and evaluate all these views. In this connection, any overall recommendation that might be submitted by the top management of the Reserve Bank would,

of course, be considered, but no attempt should be made to force a reconciliation of or to suppress differences of view among those assigned to the case.

The planning of supporting studies related to the handling of cases in the area of banking structure would also be an important responsibility of the Program Management Committee. Examples of such studies might be the development and revision of guidelines for the delegation of cases by the Board and the development of draft guidelines to apply in the area of bank holding company entry into nonbank activities.

The Committee should act only in an advisory capacity as regards the resources assigned to individual cases. The professionals involved--economists, examiners, and lawyers--would remain in their present Divisions, as indeed would members of the Committee itself. Case processing would be implemented by working back through the relevant Committee member acting in his joint capacity as an official of the Division. Any problems which might arise regarding the adequacy of available staff resources would be settled through negotiation with the relevant Division director. Such related personnel matters as recruitment, salary, official assignments, etc., would continue to be the responsibility of the respective Division directors, although they would be guided in these decisions by the needs suggested by the Program Management Committee.

In addition to the above duties, the Program Management Committee would also have overall responsibility for planning, coordinating, and evaluating the program.

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Appendix B

Proposed Guidelines for Delegation by the Board of Authority to Approve Certain Bank Merger and Holding Company Applications

Should the Board choose to delegate the authority for approval of certain bank merger and holding company acquisition cases, either to the Presidents of the Federal Reserve Banks and/or to the appropriate official or officials on its own staff, the promulgation of clear-cut guidelines as to the types of cases to be so delegated would be required. These guidelines would define the outer limits of cases eligible for delegation, in the sense that only cases meeting each of them, but not necessarily all cases meeting them, would be delegated. They should be drawn so that cases delegated are limited to those which (a) involve the acquisition of only small banks, (b) have little or no competitive impact, and (c) pose no significant controversial questions.

Possible criteria for selecting bank merger and holding company acquisition applications suitable for delegation of authority might include the following:

1. Only bank merger and holding company acquisition applications could be delegated. All holding company formations would continue to be decided by the Board. If the Board is given responsibility for one-bank holding companies, cases involving the acquisition of non-bank entities would not be delegated until sufficient experience had been accumulated to provide a basis for developing suitable criteria for delegation of such cases.

2. Delegation of authority for approval of bank mergers and holding company acquisitions would apply only to those cases which the Reserve Bank or Board staff regarded as warranting approval and which did not involve issues that the staff believed should be brought to the Board's attention. All cases involving a recommendation for disapproval would be referred to the Board for decision.

3. Delegation could be limited to cases in which the size of the bank to be acquired in the proposed merger or holding company acquisition is below a specified dollar limit, such as \$10 million of total deposits.

4. Delegated authority for approval decisions in the merger and holding company acquisitions meeting the other criteria would also require unanimity of recommendation by the different staff groups working on the case analyses. If delegation were to the Reserve Banks, this

would require agreement of the Examination, Research, and Legal staffs at the Banks. If the delegation of authority were to an appropriate official or officials on the Board's staff, as the Task Force recommends, the recommendations for approval would also have to be agreed to by the three staff groups at the Board.

5. On the merger cases delegation would also require no significant adverse competitive comment by the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Justice Department. Similarly, on holding company acquisition cases an adverse report by the appropriate Federal or State authorities would require Board consideration.

If the Board does in fact adopt some delegation of authority for bank merger and holding company cases, there would be a need for a periodic review of the possible criteria for delegation. Such a review might well suggest additions to, and modifications of, the above criteria.

Delegation of authority for approval of the merger and holding company acquisitions that meet the proposed criteria could well mean a reduction in the staff work as well as the time devoted by the Board to such cases. In the first eight months of 1969 there were a total of 53 bank merger and holding company acquisition applications considered by the Board. Of these, 18 cases, or one-third, involved acquired banks with less than \$10 million of total deposits.

indicated that the procedures outlined in its letters of May 26, 1967, and August 8, 1967 (S-2018 and S-2026), have been very helpful in the consideration of cases, and it requested that these arrangements be continued.

Very truly yours,

Robert C. Holland,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Dear Sir:

It seems advisable to plan that legislation regarding bank holding companies will be enacted into law by around mid-1970, and that under the terms of such legislation the Federal Reserve System would continue to have sole jurisdiction over bank holding companies. Enactment of this legislation would result in a much larger case load, and in addition it would be necessary to make judgments and decisions in essentially new areas to the extent that bank holding companies are permitted nonbanking acquisitions. Even in the unlikely event that bank holding company legislation is not enacted next year, the work load under existing legislation is expanding and it is likely that this expansion will continue.

In view of the increased work load under existing legislation and the prospects of an extraordinarily large increase under new legislation, the Board is taking steps to streamline its procedures in the holding company and merger area and to employ additional staff. In order that the entire System may have the capacity to process this increased work load in a timely manner, the Board suggests that each Reserve Bank plan to review its staff organization and resources and to take steps to assure that they are adequate to meet existing and future demands.

In considering its own organizational arrangements in connection with bank holding company and merger cases, the Board

APR 13 1970
400.4
12/9/69

December 9, 1969

TO: Board of Governors
FROM: Governor Sherrill

Subject: Proposed program for dealing
with bank merger and holding company
applications.

There is attached for the Board's consideration a memorandum to me from a staff Task Force which contains a number of recommendations for establishing a new program to deal with bank merger and holding company applications.

As you are aware, there has been a marked increase in the number of applications that have been received from registered bank holding companies and it is expected that this trend will continue. This increase, combined with increases in work load expected when the one-bank holding company legislation is enacted, will undoubtedly produce problems with which we will be unable to deal under our present organizational structure. Accordingly, I recently requested that a Task Force be established to study this problem and to present alternative recommendations for dealing with the situation. The need for such a reevaluation of present procedures was emphasized during the budgetary review process which was conducted this Fall.

The Task Force has now completed its assignment and, as indicated in the attached memorandum, there is widespread agreement in that group that the present organizational structure is incapable of dealing with the increase in the number of applications that the Board is expected to receive from both one-bank and registered bank holding companies. Each of the five recommendations presented by the Task Force has merit, but on balance the Task Force recommends the appointment of a

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program management committee ~~director~~ at the earliest possible date to deal with banking structure matters, and I endorse that recommendation.

The Task Force has also recommended that consideration be given to the delegation of authority for approval of simple clear-cut cases to one or more staff members. I agree that such delegation is called for as the case load continues to increase; it would obviously save substantial amounts of time for the Board itself and would also save staff time in the preparation of material for Board consideration. The guidelines for delegation recommended by the Task Force seem appropriate in the kinds of criteria employed. They are very tight, but this is wise in the initial stages of such a change. I would expect the delegees to come back to the Board after a few months of experience with proposals for some appropriate broadening of the delegation limits.