

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 10, 1940, at 10:20 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman

Mr. Ransom reported that, in view of the possibility of repercussions in the Government securities market as a result of recent developments in the war situation abroad, the Secretary of the Treasury had asked yesterday that the Board keep the Treasury informed in the event the System decided to enter the market and indicated that the Treasury would likewise inform the Board if it decided to do so. He said that he had been advised that, in the absence of Under Secretary Bell, Mr. Bartelt, Commissioner of Accounts and Deposits, would be authorized to act in such matters on behalf of the Treasury. He added that he had advised Mr. Harrison, President of the Federal Reserve Bank of New York, regarding this request and was informing the other members of the Board at this time so that any member who may be called upon to serve on the executive committee of the Open Market Committee would have it in mind.

Mr. Ransom also reported the substance of a telephone conversation which he had had yesterday afternoon with Representative

4/10/40

-2-

Thomas F. Ford of California who had called him to obtain some information with regard to S.3343, "A Bill to amend section 13b of the Federal Reserve Act, as amended", which had been introduced in the Senate on February 13 by Senator Mead. Mr. Ransom said that Mr. Ford had told him that Senator Mead had asked him to introduce a companion bill in the House and that he wished to inquire whether the Board had made a formal report on S.3343 and what its views were regarding it. Mr. Ransom stated that he advised Mr. Ford that the Board had not made a report on the Bill and that he, of course, was not in a position to express the Board's views with respect to it without consulting the other members. He said that Mr. Ford had indicated that he had not expected to obtain an expression of the Board's views over the telephone unless it had already filed a report on the Bill and would therefore write a letter asking whether, in the opinion of the Board, the proposed Bill, if enacted into law, would accomplish in any important degree the purposes it was designed to achieve. Mr. Ransom thereupon read the letter in question, dated April 9, 1940, which had been received from Representative Ford this morning.

At the conclusion of a discussion, it was agreed that the letter should be referred to Mr. Vest for the preparation of a draft of reply and a memorandum analyzing the Bill for the consideration of the Board early next week.

4/10/40

-3-

At this point Mr. Thurston left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on April 9, 1940, were approved unanimously.

Memorandum dated April 9, 1940, addressed to Mr. Noell, Assistant Secretary, by Mr. Spurney, Building Manager, recommending, with the approval of Mr. Morrill and for the reasons stated in the memorandum, that Mrs. Elizabeth M. Williams be promoted from relief charwoman to charwoman, with no change in her present salary at the rate of fifty-cents per hour, effective as of April 16, 1940.

Approved unanimously.

Letter to Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"As you and Messrs. Klages and McDowell were advised informally following your meeting with the Board on Friday, April 5, 1940, and for the reasons given to you at that time, the Board approves salaries effective from May 1, 1940 to April 30, 1941, for the following officers of the Federal Reserve Bank of Cleveland if fixed by your board of directors at such rates, subject in the cases of the salaries of the President and First Vice President after February 28, 1941, to their reappointment with the approval of the Board of Governors upon the expiration of their present terms of office:

4/10/40

-4-

<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
M. J. Fleming	President	\$25,000
F. J. Zurlinden	First Vice President	18,000
W. H. Fletcher	Vice President	15,000
G. H. Wagner	Vice President	12,000
W. F. Taylor	Vice President and Cashier	10,000
R. B. Hays	Assistant Vice Presi- dent and Secretary	10,000
C. W. Arnold	Assistant Vice Presi- dent	8,200
E. A. Carter	Assistant Cashier	6,900
A. G. Foster	Assistant Cashier	6,900
H. E. J. Smith	Assistant Cashier	5,300
F. V. Grayson	Auditor	9,000

Cincinnati Branch

B. J. Lazar	Managing Director	9,000
H. N. Ott	Cashier	6,500
R. G. Johnson	Assistant Cashier	4,600
P. J. Geers	Assistant Cashier	4,200

Pittsburgh Branch

P. A. Brown	Managing Director	9,000
D. B. Clouser	Cashier	8,000
F. E. Cobun	Assistant Cashier	5,500
C. J. Bolthouse	Assistant Cashier	5,400

"Advice of approval by the Board of Governors of the payment of a retaining fee at the rate of \$5,000 per annum to the firm of Squire, Sanders & Dempsey, which was reappointed counsel for the year 1940, was contained in the Board's letter of January 10, 1940, to President Fleming."

Approved unanimously.

Letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Further reference is made to your letter of February 16, 1940, transmitting resolutions of your Board of Directors with regard to making use of bank funds for loans to employees and for donations to the

4/10/40

-5-

"Allied Charities of Kansas City, Missouri, and the Community Chest of Kansas City, Kansas. The Board of Governors has given consideration to these resolutions as amended and as further explained in your letter of March 30.

"The Board approves the action of your Directors in the establishment of a plan to make loans to employees from bank funds in an amount not to exceed \$10,000 outstanding at any one time. In this connection it is understood that outstanding loans to employees made from the nonstatement account 'Employees' Emergency Fund' will be transferred to the Bank, and it is assumed the procedure followed in accounting for loans to employees from bank funds will conform to that outlined in the Board's letter of May 18, 1938 (R-245).

"While the Board appreciates the special circumstances of your Bank in the operation of the office building in competition with other office buildings in Greater Kansas City, it feels it should not depart from the position taken in the past that it can not sanction the use of Federal Reserve bank funds to make contributions to organizations such as community chests.

"The circumstances of the establishment and use of the nonstatement funds at your Bank as administered by the directors and officers for charitable purposes and for the welfare of employees are noted, and the Board will interpose no objection at this time to the consolidation of these funds and the retention thereof as a nonstatement account, subject, as in the past, to review from time to time by the Board's examiners."

Approved unanimously.

Letter to the board of directors of "The Forest City National Bank", Forest City, Iowa, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the application made on behalf of the "Forest City Bank & Trust Company", a proposed State institution being organized to succeed The Forest City National Bank, Forest City, Iowa, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

4/10/40

-6-

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Such bank shall, at the time of admission to membership, have assets and liabilities substantially the same in amount and character (with due allowance for changes arising from the ordinary course of business) as shown in the report of examination of the national bank as of March 25, 1940, made by an examiner for the Federal Reserve Bank of Chicago, and shall have a paid-up and unimpaired capital of at least \$50,000 and a surplus of at least \$50,000."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application made on behalf of the 'Forest City Bank & Trust Company', a proposed State institution being organized to succeed 'The Forest City National Bank', Forest City, Iowa, for membership in the Federal Reserve System, effective if and when the successor bank is duly authorized to commence business by the appropriate State authorities, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the national bank. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banking for the State of Iowa for his information.

"Before issuing stock in the Federal Reserve Bank of Chicago to the new State institution, you are requested to satisfy yourself that its capital stock as required in condition numbered 5 has been paid in, and that the organization papers and all agreements and contracts entered into between it and The Forest City National Bank covering the purchase of assets from, and the assumption of liabilities of, that bank and any and all other agreements and contracts between such bank and the stockholders and/or directors or other individuals or concerns, incident

4/10/40

-7-

"to the organization of the new State institution, have been considered by your counsel, and that he is satisfied as to their legal aspects. It is requested that a copy of the opinion of your counsel given in this connection, together with copies of any such agreements and contracts and a copy of the bank's charter, be forwarded to the Board as soon as possible. It is requested also that the Board be furnished with a copy of the resolution of the board of directors of the State institution ratifying the action taken on its behalf in making application for membership in the Federal Reserve System.

"The Forest City National Bank did not have trust powers and it may be that the new State bank has no intention of doing a trust business. However, it has been noted that under its articles of incorporation the State bank will have authority to act in a fiduciary capacity and that its corporate title includes the word 'trust'. Therefore, the management's attention should be called to the fact that the application for membership has been approved on the same basis as if the new bank would not be authorized to exercise trust powers and that should the institution desire in the future to do a trust business, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1.

"The Federal Deposit Insurance Corporation is aware of the proposed conversion of the national bank to a State institution and it is assumed that the attention of the national bank has been called to the provisions of Section 12B (i)(4) of the Federal Reserve Act relating to the termination of insurance on its deposits."

Letter to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to your letter of March 25, 1940, and previous correspondence regarding the status of Mr. L. L. Gunn, Vice President and Director of The Farmers National Bank, of Great Bend, Kansas, under the Board's Regulation O.

"The board of directors of the bank in July 1939 adopted a resolution to the effect that Mr. Gunn is not authorized to participate in the operating management of the bank. A question was raised by the examiner

4/10/40

-8-


"concerning his status, however, because of the fact that he was also serving as a member of the discount committee, which, under the by-laws, consisted of the 'President, Cashier, and three directors'. It appears from your letter of March 25, quoting a letter received from the Cashier of the bank, that Mr. Gunn has now resigned his position on the discount committee and is no longer a member of the committee. While it is understood that he is a member of the examining committee, it is assumed that the duties of this committee are not such that members thereof are to be considered as participating in the operating management of the bank by reason of such membership.

"Since Mr. Gunn is no longer a member of the discount committee, it is not necessary for the Board to express any opinion with regard to the question which was raised by reason of such membership. It is understood that under the resolution adopted by the board of directors Mr. Gunn is not authorized to participate in the operating management of the bank and that he does not actually participate therein. In the circumstances, he is not an executive officer within the meaning of Regulation O.

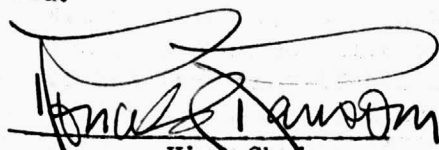
"While it appears that President Duckwall, with respect to whom a like resolution was adopted by the board of directors, is a member of the discount committee, it is not understood that he is borrowing from the bank or that any question regarding his status has been raised at this time."

Approved unanimously.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Vice Chairman.