

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 19, 1940, at 11:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 18, 1940, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Sanford, Secretary of the Federal Reserve Bank of New York, Mr. Catanach, Acting Assistant Secretary of the Federal Reserve Bank of Philadelphia, Messrs. Hays, Dillard, Stewart, and Hale, Secretaries of the Federal Reserve Banks of Cleveland, Chicago, St. Louis, and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on July 16, by the Federal Reserve Banks of New York, Cleveland, Chicago and San Francisco on July 18, 1940, and by the Federal Reserve Banks of Boston

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and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated July 16, 1940, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Miss Cora-Jean Hague be appointed on a permanent basis as a library assistant in the Division, with salary at the rate of \$1,440 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of the "Farmers and Merchants Bank of Lodi, California", Lodi, California, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$7,301.87, as shown in the report of examination of such bank as of May 21, 1940, made by an examiner for the Federal Reserve Bank of San Francisco."

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

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"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers and Merchants Bank of Lodi, California', Lodi, California, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. 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 Banks for the State of California for his information.

"The problems inherent in the bank's investment account have been the subject of previous correspondence between you and the Board and the application has been approved with the understanding that the Reserve Bank will follow the situation closely to see that proper efforts are made to improve the account.

"It is assumed, of course, that your office will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations the savings account and the loan on the security of a time certificate of deposit which are listed on page 16-1 of the report of examination for membership."

Letter to Mr. Kennel, Assistant Counsel of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of June 19, 1940, regarding certain questions with respect to Regulation T which were presented by the Boston Stock Exchange.

"Since the Boston Stock Exchange indicated a desire to use the ruling in circularizing its members, the views of the Board on the questions have been incorporated in the attached statement for the press regarding 'Obtaining Payment for Purchase of Securities in Cash Account under Regulation T'. You will note, however, that it is not to be released until the time indicated on the statement.

"We hope the answers to these questions will be of assistance to the Boston Stock Exchange in handling requests for extensions of time. We do not believe we can add anything to the Board's letter of March 26, 1937, with respect to the imposition of a service charge for handling such requests, but the exchange should feel free at any time to present any further questions whose clarification

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"might aid in the discharge of its responsibilities under the regulation. The Board will be glad to give careful consideration to any such questions or to any suggestions the exchange may wish to offer in connection with the regulation."

Approved unanimously, with the understanding that the ruling referred to in the letter would also be sent to the other Federal Reserve Banks.

Letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of July 16, 1940, in which you request advice whether the Board would consider it proper for the Federal Reserve Bank of St. Louis and its branches to make contributions to the War Relief Fund of the American Red Cross.

"The Board would be glad if it could see its way clear to approve requests similar to yours and in this spirit it recently reviewed the whole question very carefully. In doing so the Board came to the conclusion that it would not be justified in reversing the position which has been taken for many years that it could not authorize expenditures of Federal Reserve bank funds by way of donations to further purposes, no matter how worthy, which were not directly related to the conduct of the affairs of the banks.

"On May 17, 1938, in response to a request from the Chairman of the Senate Committee on Banking and Currency for a report on a bill to amend the Federal Reserve Act to provide for charitable contributions and for other purposes, the Board pointed out that the Federal Reserve banks are not confined to State boundaries but cover very large districts which, in most cases, extend through several States, that they are operated under Federal law, and that they perform various functions on behalf of the Federal Government. The Board advised the Committee of the position which the Board had previously taken that in view of the peculiar relationship of the Federal Reserve banks to the Government it should not authorize donations of Federal Reserve bank funds for purposes, no matter how worthy, which were not directly related to the

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"conduct of the affairs of the bank. This relationship of the banks to the Government involves the point, among others, that the local member banks as stockholders do not have the usual claim on the assets of the Reserve banks that common stockholders have in other corporations, since the surplus of each bank in case of liquidation will belong to the United States.

"The Board, therefore, requested that the language of the bill applying to Federal Reserve banks be omitted. The Committee reported the bill out favorably but in doing so omitted Federal Reserve banks from its provisions. The bill was not passed by Congress at that time, but another bill for a similar purpose was subsequently introduced, confined, however, to national banks and omitting State member banks and Federal Reserve banks from its provisions. This bill became a law on June 11, 1940.

"In view of this history of the matter the Board feels that it cannot now depart from the position it has consistently followed for many years. We hope that this review will make the reasons for the Board's position entirely clear to you."

Approved unanimously.

Memorandum dated July 17, 1940, from Mr. Morrill recommending, for the reasons stated in the memorandum, that \$6,000 be added to the item of Repairs and Alterations (Building and Grounds) and \$300 to the item Traveling Expenses in the 1940 non-personal budget of the Office of the Secretary.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill  
Secretary.

Approved:

W. C. C. C.  
Chairman.