

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 7, 1940, at 11:35 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman

Mr. Clayton reviewed briefly recent developments in connection with the consideration by Congress of the Federal Deposit Insurance Corporation bill and said that it was felt in some quarters that as a result of opposition in the Senate yesterday to the manner in which the bill had been handled, it would not pass at this session of Congress.

It was stated that the Federal Advisory Council was meeting in Washington today, that one of the items on the agenda for the meeting was the question of the publication of the statement submitted by the Council at its May meeting with respect to the "easy money" policy, and that it was desirable for the Board to determine what its position would be if the Council should again request publication of the statement.

Chairman Eccles expressed the opinion that if the statement were published at this time it would be misinterpreted as having been made for political purposes and that, regardless of that point, if

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published in its present form, the statement would have to be answered by the Board which would again create an impression on the part of the public of a controversy between the Board and the Federal Advisory Council on a fundamental question.

Reference was made to a draft of a statement which had been prepared by Mr. Goldenweiser, Director of the Division of Research and Statistics, and Mr. Morrill stated that Messrs. Szymczak, Thomas, and he had discussed the statement and that a revision thereof was being typed for consideration by the members of the Board.

Mr. Szymczak suggested that, if the Council renewed its request for publication of the statement, it be advised that the Board would complete the preparation of an answer to the statement, which the Board would feel compelled to release to the press if the Council's statement were published, and that the Board would suggest the appointment of a committee of the Council to confer with a committee of the Board for the purpose of exploring the possibility of a statement on which the Council and the Board could agree.

During the discussion of this suggestion Mr. Davis joined the meeting and toward the end of the discussion Mr. Thomas came into the room.

It was agreed unanimously that the position proposed by Mr. Szymczak should be taken by the Board at the meeting with the Council when the question of the publication of the Council's statement was raised.

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In connection with bank financing of the national defense program, which was one of the items on the agenda for the meeting of the Federal Advisory Council, Mr. Morrill stated that he had been advised that the revision of the form of the emergency plant facilities contract being prepared by the National Defense Commission had not yet been finished but that copies thereof would be furnished to the Board as soon as possible. It was suggested that, if the Council should so desire, arrangements be made to have Mr. Palmedo and Mr. Eaton, who have been working on the form of the contract for the Defense Commission, attend the meeting of the Council and discuss any questions with respect to the contract that may be asked by the members of the Council. It was understood that Mr. Morrill would ascertain from Messrs. Palmedo and Eaton if this arrangement would be agreeable to them.

Inquiry was made as to the answer the Board would make if the Council, in connection with its consideration of the Federal Deposit Insurance Corporation bill, should ask for the Board's opinion of the bill.

It was agreed unanimously that Chairman Eccles should advise the Council that the Board had not been asked for a report on the bill in its present form and therefore had not considered what position it should take.

At this point Messrs. Thurston and Thomas left the meeting and the action stated with respect to each of the matters hereinafter re-

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ferred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 4, 1940, were approved unanimously.

Memorandum dated October 3, 1940, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that, for the reasons stated in the memorandum, Guy T. Nunn be appointed as a junior economist in that Division, with salary at the rate of \$2,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"When Congress enacted the Banking Act of 1933, it placed upon the Federal Reserve System a responsibility for the examination and supervision of holding company affiliates of member banks. This responsibility was emphasized by Congress recently when it enacted the Investment Company Act of 1940 and included therein the following exemption:

'SEC. 3.

* * * * *

'(c) Notwithstanding subsections (a) and (b), none of the following persons is an investment company within the meaning of this title:

* * * * *

'(4) Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason

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"of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard. The definition of the term "control" in section 2(a) shall not apply to this paragraph.'

"A similar exemption from the Investment Advisers Act of 1940 is contained in section 202 of that Act.

"For your information in connection with the above exemptions, the Board has requested me to forward to you the enclosed copy of certain testimony submitted to the Subcommittee of the Committee on Banking and Currency of the Senate during hearings on the Investment Company and Investment Advisers Acts. This enclosure includes a report which the Board made to the Senate Committee on Banking and Currency and certain correspondence between the Board and the Securities and Exchange Commission relating to the exemptions above referred to."

Approved unanimously.

Letter to Mr. Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation, reading as follows:

"The Federal Deposit Insurance Corporation in its letter of June 24, 1940, proposed to reimburse the Board of Governors of the Federal Reserve System for a period of about three months for the salaries of two clerks who would be employed for work in connection with the assembly and joint publication of available Federal and State banking statistics, a project on which the Federal Deposit Insurance Corporation, the Comptroller's

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"Office, and the Board of Governors are collaborating. The Board's letter of July 12, 1940, referred to the appointments of the two clerks hired as a result of this agreement. These three-month appointments will expire in October, one on the eleventh and the other on the fourteenth. Clerical help, however, will be needed for this project for several months after that time. Consequently, it is proposed to extend the appointments of the two clerks on a temporary basis for such time as may be necessary, but in any event not longer than June 30, 1941. It will be appreciated if you will advise us whether the Federal Deposit Insurance Corporation will continue the present arrangement of reimbursing the Board for the salaries paid the two clerks for such time as their services are needed."

Approved unanimously.

Letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Enclosed is a copy of a letter dated September 24, 1940, and enclosures from Mr. Gough, Deputy Comptroller of the Currency, with reference to the Clayton Act status of Mr. Morris E. Marlow, who is a director of the National Bank of Washington and of the East Washington Savings Bank, both of Washington, D. C. It seems possible that the case may present some questions similar to those discussed in the Board's recent letter regarding Mr. McKee and three other directors of the East Washington Savings Bank.

"If after obtaining the necessary information and consulting counsel for your Bank you are of the opinion that any question regarding the case should be submitted to the Board, the Board will be glad to consider it. However, if after investigating the matter you feel that the matter need not be submitted to the Board, it will be appreciated if you will advise Mr. Marlow."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. E. C. C.
Chairman.