

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, January 25, 1941, at 11:45 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Davis  
Mr. Draper

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:

Telegrams dated January 24, 1941, to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Sanford, Secretary of the Federal Reserve Bank of New York, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, Messrs. Dillard, Stewart, and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis, and Minneapolis, respectively, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on January 21, by the Federal Reserve Banks of New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Dallas on January 23, and by the Federal Reserve Bank of Boston on January 24, 1941, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Telegram dated January 24, 1941, to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, approving bond in the amount of \$10,000 executed under date of January 21, 1941, by D. E. Moncrief as Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

Approved unanimously.

Memorandum dated January 18, 1941, from Mr. Nelson, Assistant Secretary, recommending, for the reasons stated in the memorandum, that (1) Robert L. Tucker be appointed as a plumber in the Building Operation and Maintenance Section of the Secretary's Office with salary at the rate of \$1,800 per annum; (2) William H. Gray be appointed on a temporary basis for an indefinite period as an elevator operator in the Building Operation and Maintenance Section of the Secretary's Office with salary at the rate of \$1,200 per annum; and (3) Joseph J. Yilek be appointed as a porter in the Building Operation and Maintenance Section of the Secretary's Office with salary at the rate of \$1,080 per annum, all effective as of the date upon which they enter upon the performance of their duties after having passed satisfactorily the usual physical examination. The recommendations were approved by four members of the Board on January 23, 1941.

Approved unanimously.

Letter dated January 23, 1941, to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Referring to your letter of January 9, 1941, it is noted that at a meeting of the board of directors of the Federal Reserve Bank of Cleveland held on that date the officers listed therein were reappointed for the year 1941.

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"It is also noted that Mr. R. B. Hays was promoted from Assistant Vice President and Secretary to Vice President and Secretary and that Mr. J. W. Kossin, who has been Manager of Personnel, was appointed an Assistant Cashier at the Head Office. With respect to this appointment, the Board of Governors approves the payment of salary to Mr. Kossin at the rate of \$5,250 per annum for the period from January 16, 1941, through April 30, 1941.

"In accordance with the further action taken by your board of directors, the Board of Governors also approves payment of a retaining fee at the rate of \$5,000 per annum to the firm of Squire, Sanders and Dempsey, which was re-appointed counsel for the year 1941."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Acknowledgment is made of your letter of January 16, 1941, advising of the action taken by the Board of Directors at a meeting held on that date with respect to the election of officers.

"You will be advised in a separate communication of the action taken by the Board of Governors on the appointment of Mr. J. N. Peyton as President and Mr. O. S. Powell as First Vice President for the five-year term beginning March 1, 1941. You will also be advised, at a later date, of the action taken by the Board of Governors with respect to the salaries fixed by the Board of Directors for the officers of the Bank effective June 1, 1941.

"The Board of Governors approves payment of a retaining fee at the rate of \$9,000 per annum to Sigurd Ueland, Counsel, for the year 1941.

"It is noted that Mr. A. W. Mills, formerly Assistant Auditor, was appointed Auditor effective January 1, 1941, vice Mr. F. C. Dunlop."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your

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"letter of January 21, the Board approves the appointment of George Harold Snead as an examiner for the Federal Reserve Bank of Richmond.

"Please advise us of the effective date and the salary to be paid Mr. Snead."

Approved unanimously.

Telegram dated January 23, 1941, to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Retel January 22. Board approves designations of F. J. Mathews and J. C. Craig as special assistant examiners with understanding they will not be transferred permanently to examination work without Board's approval."

Approved unanimously.

Letter dated January 23, 1941, to Mr. West, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of January 16 submitting a revised list of employees whose services you wish to use in connection with examinations of State member banks.

"The designations as special assistant examiners of most of the employees listed in your letter have already been approved by the Board and reapproval is not necessary. Included in the list submitted are the following employees who, according to our records, are not now on the approved list, and the Board approves their designations as special assistant examiners:

Domenic Coragliotti	A. C. Grilley
M. A. Jones	P. W. Cavan
David Laxineta	H. C. Litscher
V. E. Vigus	W. R. Sandstrom
E. H. Breuckner	A. L. Price

F. K. Grimm

"Approval is given with the understanding, of course, that none of the employees will be transferred permanently to examining work without the Board's consent.

"The present list of employees of the Reserve Bank

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"whose designations as special assistant examiners have been approved by the Board includes the following employees whose names are not included in the revised list submitted:

S. Gough	J. A. Wilburn
H. F. Slade	Leonard D. Luby
C. A. Bemis	R. A. V. Clarke
D. M. MacClaire	

It is assumed that the designations of such employees may be considered as having been canceled and accordingly notations to that effect have been made on the Board's records."

Approved unanimously.

Letter to Mr. Hale, Secretary of the Board of the Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of January 18, 1941, the Board of Governors approves the fees and allowances fixed by your board for the directors of the Federal Reserve Bank of San Francisco and its Branches for the year 1941."

Approved unanimously.

Letter dated January 23, 1941, to Mr. McCravey, Secretary of the Board of the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your letter of January 17, 1941, the Board of Governors approves the reappointment of Messrs. W. W. French, A. M. Lockett, I. C. Milner, John E. Sanford, and George Winship as members of the Industrial Advisory Committee for the Sixth Federal Reserve District to serve for terms of one year each beginning March 1, 1941."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Powell, Secretary of the Board of the Federal Reserve Bank of Minneapolis, reading as follows:

"Referring to your letter of January 17, 1941, the Board of Governors approves the reappointment of Messrs. Sheldon V. Wood, John M. Bush, C. O. Follett, and Albert

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"L. Miller as members of the Industrial Advisory Committee for the Ninth District to serve for terms of one year each beginning March 1, 1941."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Leedy, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of January 17, 1941, the Board of Governors approves the reappointment of Messrs. R. L. Gray, D. Bruce Forrester, and Ed S. Miller, and the appointment of Mr. Thomas McNally, President, McNally-Pittsburgh Manufacturing Company, Pittsburgh, Kansas, and Mr. Robert Sutherland, Jr., of the Sutherland Lumber Company, Kansas City, Missouri, as members of the Industrial Advisory Committee for the Tenth Federal Reserve District, to serve for terms of one year each beginning March 1, 1941."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Leedy, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Receipt is acknowledged of your letter of January 17, 1941, advising that at a meeting of the board of directors of your Bank held on January 16, 1941, Mr. W. Dale Clark, President, The Omaha National Bank, Omaha, Nebraska, was appointed as a member of the Federal Advisory Council to represent the Tenth Federal Reserve District for the remainder of the year 1941.

"Referring to the second paragraph of your letter, the Board of Governors authorizes your Bank, until further notice, to pay to the member of the Federal Advisory Council representing the Tenth Federal Reserve District, an amount not to exceed \$250 for each meeting of the Council attended."

Approved unanimously.

Letter to the board of directors of the "Boulevard Bank", Forest

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Hills, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, 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 New York.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Boulevard Bank', Forest Hills, New York, 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 New York for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It has been noted, however, that the management has agreed to eliminate the amount classified prior to the bank's admission to membership and it is assumed that that will be done.

"As you know, capital debentures issued to others than the R.F.C. are not to be taken into consideration in computing the number of shares of Federal Reserve Bank stock which a member bank is entitled to hold."

Letter to the board of directors of "The Schoharie County Bank", Schoharie, New York, stating that, subject to conditions of membership numbered 1 to 3, inclusive, 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

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amount of stock in the Federal Reserve Bank of New York:

- "4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,818, as shown in the report of examination of such bank as of December 11, 1940, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously for transmission through the Federal Reserve Bank of New York.

Letter dated January 24, 1941, to the board of directors of "The Farmers' Trust Company", Mount Holly, New Jersey, stating that, subject to conditions of membership numbered 1 to 6, inclusive, 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 Philadelphia:

- "7. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$325, as shown in the report of examination of such bank as of November 4, 1940, made by an examiner for the Federal Reserve Bank of Philadelphia."

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as the powers to act as surety and to guarantee real estate titles. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before



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"exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter dated January 24, 1941, to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers' Trust Company', Mount Holly, New Jersey, 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 Commissioner of Banking & Insurance for the State of New Jersey for his information.

"It has been noted that the Reserve Bank recognizes that the applicant has some distinct problems and is not in an altogether satisfactory condition but regards the situation as one in which constructive supervision can be of assistance and is willing to assume the responsibility for providing such supervision. The application has been approved with that understanding."

Letter dated January 23, 1941, to the board of directors of "The Vienna Trust Company", Vienna, Virginia, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, 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 Richmond.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking business,

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"such as the power to guarantee the payment of bonds. It appears also that the bank possesses authority to exercise fiduciary powers but has exercised such powers only in one instance in the past and was not doing so when it filed its application and was examined for membership. Attention is invited to the fact that if the bank desires to exercise any powers, including fiduciary powers, not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

Approved unanimously, together with a letter dated January 23, 1941, to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Vienna Trust Company', Vienna, Virginia, 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 Commissioner of Banking for the Commonwealth of Virginia for his information.

"Since the amount of estimated losses shown in the report of examination for membership is relatively small, the usual condition of membership requiring elimination of losses has not been prescribed. It has been noted, however, that the management intends to charge off the amount classified, and it is assumed that this will be done."

Telegram dated January 23, 1941, to Mr. Schaller, President of the Federal Reserve Bank of Chicago, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, the Board approves the application of the "Lancaster State Bank", Lancaster, Wisconsin, for membership in the Federal

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Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank.

Approved unanimously.

Letter to the board of directors of "The Farmers & Merchants Bank", Berlin, Wisconsin, stating that, subject to conditions of membership numbered 1 to 3, inclusive, contained in the Board's Regulation H, 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 Chicago.

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 of 'The Farmers & Merchants Bank', Berlin, Wisconsin, 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 Commissioner of Banking for the State of Wisconsin for his information.

"Careful consideration has been given to the letter dated December 28, 1940, from Mr. Hopkins, Supervising

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"Examiner for the Federal Deposit Insurance Corporation, to Mr. Young expressing the hope that action on the bank's application would be deferred until the present management had served out a trial period and demonstrated its acceptability to him. The Board feels, however, that the situation is not such as to justify denial of membership to the bank at this time.

"The Board will expect, however, that the Reserve Bank will be mindful of the comments made by the Supervising Examiner regarding the management situation, will follow the situation closely until the character of the management can be appraised on the basis of the operations of the new bank, and will take prompt and effective steps to effect any necessary changes if the management is unable to demonstrate its ability to operate the bank in a satisfactory manner. In this connection it is assumed that the Reserve Bank will examine the bank some time in the spring or early summer and again before the end of the year. It is suggested that the Supervising Examiner for the Federal Deposit Insurance Corporation be advised as to this position and that the situation as disclosed by the examinations be discussed with him."

Letter dated January 24, 1941, to Mr. Robert K. Henry, Commissioner, State Banking Department, Madison, Wisconsin, reading as follows:

"This refers to your letter of January 8, 1941, inquiring whether the permit to exercise fiduciary powers granted to The First National Bank of Wisconsin Rapids, Wisconsin Rapids, Wisconsin, has been cancelled and revoked by the Board.

"The bank has returned its permit and filed a resolution of its Board of Directors indicating its desire to surrender its right to exercise fiduciary powers. However, under the provisions of section 11(k) of the Federal Reserve Act, the bank's right to exercise fiduciary powers will not be surrendered until the Board issues a certificate certifying that the bank is no longer authorized to exercise such powers. Before issuing the certificate, the Board must satisfy itself that the bank has been relieved in accordance with State law of all of its duties as fiduciary and, in this connection, the Comptroller of the Currency has been requested to have a special investigation

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"made at the time of the next regular examination of the bank. Pending receipt of the examiner's report, no action will be taken with respect to the issuance of the desired certificate.

"We understand that under the usual procedure the Federal Reserve Bank of Chicago will advise you when the certificate is issued."

Approved unanimously.

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

"Reference is made to your letter of January 14, 1941, with enclosures, submitting for consideration the proposed plan of the First State Bank of Richey, Montana, Richey, Montana, to move to Glasgow, Montana, change its name to Farmers and Stock Growers Bank, and thereupon to assume the deposit liabilities of the Farmers-Stockgrowers Bank, Glasgow, taking over assets of the latter in an amount equal to the deposit liabilities assumed.

"Inasmuch as a State bank with a capital of less than \$50,000 located in Glasgow which, according to the 1940 census, has a population of 3,799 may not be admitted to membership in the Federal Reserve System, the Board is of the opinion that First State Bank of Richey, Montana, having capital of less than \$50,000, may not properly move its location to Glasgow and retain membership in the System with its present capital.

"However, the Board will interpose no objection to the transaction provided that, upon its consummation, the bank will have a capital of \$50,000 and, in addition thereto, surplus and/or undivided profits in an amount satisfactory to the Federal Reserve Bank of Minneapolis, and that counsel for the Reserve Bank shall be satisfied as to the legal aspects of the transaction and particularly that it will not involve the creation of a new corporation. In the latter connection, it is assumed that consideration will be given to the provisions of the Montana statutes which apparently permit the change of a bank's location only to another place in the same county or an adjacent county."

Approved unanimously.

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Letter dated January 24, 1941, to Mr. Frederic P. Benedict,  
New York, New York, reading as follows:

"Reference is made to your letter of December 26, 1940 and earlier correspondence and discussions, presenting certain further questions with respect to certain stock lending transactions under Regulation T.

"As indicated in the Board's letters of April 3 and April 24, 1940, which were published in substance at page 647 of the July 1940 Federal Reserve Bulletin, there are three different procedures, depending on the circumstances, under which a person who is not a broker or dealer may deposit stock with a broker or dealer for the latter to lend in the 'loan crowd'. It is understood that the question now presented is whether the requirements of the regulation would be altered by the fact that the broker or dealer receiving the deposit of the securities is not to lend them through the 'loan crowd' but will follow one of two other procedures. He will either lend them directly to brokers or dealers wishing to borrow them, or he is himself an odd-lot dealer and will use the securities as an ordinary incident to his odd-lot business in the same way that he would use other borrowed securities.

"It is the view of the Board that the different treatment of the securities by the broker or dealer would not alter the application of the regulation to the deposit of the securities.

"While the borrowing and lending of securities between brokers and dealers is a usual incident of the securities business and is covered by section 6(h) of Regulation T, any such transaction with one outside the securities business would necessarily have a different status. The Board is of the opinion that the conditions specified in its previous letters would apply whenever a person not subject to Regulation T deposits securities with a broker or dealer who is subject to the regulation. This would be the case whether the broker or dealer is to lend the securities, either directly or through the 'loan crowd', or is to use them directly in his business as he would use other borrowed securities. The specified conditions would not only apply to any case in which the depositor of the securities had an ordinary margin account with the broker or dealer, but would also apply even though the deposit of securities was the only financial relationship between the parties.

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"The fact that the depositor of the securities is the issuer, or that the transaction has been arranged by a national securities exchange in order to make the securities available, would not, in the opinion of the Board, alter the situation."

Approved unanimously.

Letter dated January 23, 1941, to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"The arrangement under which the books and accounts of the Board's Fiscal Agent for the year 1940 were audited by auditors for the Federal Reserve Bank of Atlanta, under the direction of Mr. E. P. Paris, has terminated. The auditors made one surprise audit during the year and a year-end audit as of the close of December 31, 1940. Mr. Paris completed the latter audit only a few days ago which covered transactions for the period July 1 to December 31, 1940, inclusive.

"The arrangement with the Atlanta bank contemplated that the Board would reimburse it for the salaries of the auditors, retirement contributions made by it for their account for the periods they were absent from their official duties at the Reserve Bank and engaged in the audits, their actual necessary transportation expenses and an allowance for each auditor of not to exceed \$8.00 per diem in lieu of subsistence.

"Mr. Paris and his assistants have very ably performed this work, but in line with the Board's policy of rotating the task among the auditors of several of the Reserve Banks, the Board will be glad to have your institution undertake the work on the above basis for the calendar years 1941 and 1942. It is understood from my recent telephone conversations with you that it will be entirely satisfactory to you to permit the auditor of the Federal Reserve Bank of Philadelphia to audit the Board's accounts and records for the period and on the basis indicated. However, please confirm this understanding.

"The Board is today advising the Federal Reserve Bank of Richmond of the action taken and asking it to send Mr. Poorman the usual statements of the Board's account as of the close of December 31, 1940, and thereafter until further notice. It is suggested in this connection that Mr. Poorman communicate directly with Mr. Paris for the purpose of

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"obtaining detailed information regarding the scope of the audit as made by him and the procedure followed heretofore."

Approved unanimously, together with the following letter dated January 23, 1941, to Mr. Leach, President of the Federal Reserve Bank of Richmond:

"The arrangement under which the books and accounts of the Board's Fiscal Agent were audited by auditors of the Federal Reserve Bank of Atlanta, under the direction of Mr. E. P. Paris, has terminated. Although Mr. Paris and his assistants have very ably performed this work, the Board in accordance with its policy of rotating the task among the auditors of several of the Reserve Banks has requested the Federal Reserve Bank of Philadelphia to undertake the work for the calendar years 1941 and 1942.

"President Sinclair has indicated that the Federal Reserve Bank of Philadelphia will be pleased to assume this responsibility, and it is understood that Mr. Poorman, Auditor of that Bank, will communicate directly with Mr. Paris for the purpose of obtaining detailed information regarding the scope of the audit as made by him and the procedure followed heretofore. It will be appreciated, therefore, if you will forward to Mr. P. M. Poorman, Auditor, Federal Reserve Bank of Philadelphia, the usual statements of the Board's account as of the close of December 31, 1940, and thereafter until further notice."

In connection with the above matter, the following letter dated January 23, 1941, to Mr. Parker, President of the Federal Reserve Bank of Atlanta, was also unanimously approved:

"As you know, the arrangement under which the books and accounts of the Board's Fiscal Agent were audited by auditors from your Bank for the period from June 1, 1939, to December 31, 1940, inclusive, has terminated. Mr. Paris and his assistants have very ably performed this work, but in line with its policy of rotating the task among the auditors of several of the Reserve Banks, the Board has requested the Federal Reserve Bank of Philadelphia to undertake the work for the calendar years 1941 and 1942.



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"President Sinclair has indicated that the Federal Reserve Bank of Philadelphia will be pleased to assume this responsibility and it is understood that Mr. P. M. Poorman, auditor of that Bank, will communicate with Mr. Paris for the purpose of obtaining detailed information regarding the scope of the audit as made by him and the procedure followed heretofore.

"The Board appreciates the splendid cooperation it has received from your Bank in the handling of this work and feels that Mr. Paris is to be commended for the painstaking and thorough manner in which he has made these audits and for the fine spirit of cooperation he has displayed at all times."

Letter dated January 24, 1941, to the Honorable Robert F. Wagner, Chairman of the Senate Committee on Banking and Currency, reading as follows:

"This is in response to your letter of January 18, 1941 requesting an expression of the Board's opinion on S. 390, 'A Bill relating to foreign accounts in Federal Reserve banks and insured banks.'

"The enactment of legislation of the character contemplated by this bill was recommended during the last session of Congress by the Secretary of State, the Secretary of the Treasury and the Board of Governors of the Federal Reserve System with the approval of the Bureau of the Budget, and the Board desires to renew its recommendation that this legislation be enacted at the earliest practicable date.

"The Federal Reserve Banks hold large sums on deposit and large amounts of gold under earmark for foreign governments and foreign central banks. Some of these governments are at war, some of their countries have been invaded, and some of them are completely occupied by invaders. In such circumstances, disputes may arise as to who has authority to withdraw or otherwise deal with such deposits or such earmarked gold; and the Federal Reserve Banks may find themselves confronted with situations in which they must either make payments or deliveries at their peril or refuse to make payments or deliveries until the disputes can be settled by litigation or otherwise. A resort to the latter alternative might make funds which friendly

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"governments need for essential purposes unavailable until the termination of long drawn out litigation, and this might result in embarrassment to the relations of this Government with such foreign governments.

"Any question as to which is the government of a foreign country recognized by our Government and who is entitled to act for such government is a question for determination by the State Department. Any question as to who has title to, or the right to dispose of, funds in this country belonging to foreign governments and their central banks depends upon the laws of such foreign countries, and representation by the diplomatic representatives of such countries is the best evidence as to such laws. The proposed legislation, therefore, would provide, in effect, that the Federal Reserve Banks may safely rely upon representations by the Secretary of State as to who is the duly accredited representative of any foreign country and may rely upon representations made by such representatives and accepted and certified by the Secretary of State as to who is entitled to withdraw or otherwise deal with such funds. Since some insured commercial banks also hold deposits of foreign governments and foreign central banks, it is also proposed to permit them to deal with such funds on the same basis.

"However, the bill also contains a specific provision to the effect that nothing therein shall be deemed to repeal or modify in any manner any of the provisions of the Gold Reserve Act of 1934, the Silver Purchase Act of 1934, section 5(b) of the Act of October 6, 1917 or any actions, regulations, rules, orders or proclamations pursuant thereto and that, in any case in which a license to act with respect to any property referred to in the bill is required by any such laws, regulations, rules, orders or proclamations, the Secretary of State shall not act in such cases until such licenses have been issued or he has been advised that they will be issued on application.

"Legislation of this character (H. R. 10127) passed the House of Representatives on June 22, 1940 and passed the Senate with amendments on October 7, 1940 but failed of enactment because of an objection by the Secretary of State to one of the Senate amendments. The present bill, S. 390, represents a compromise which has been agreed upon between the Secretary of State, the Secretary of the Treasury and the Board of Governors of the Federal Reserve System and which the Board understands is acceptable to you and to the Chairman of the Committee on Banking and Currency of the House of Representatives.

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"In this connection your attention is invited to the report of the hearings held by your Committee on June 21 and 22, 1940 and to the following correspondence on this subject, the originals or copies of which are in the files of your Committee:

Letter of the Assistant Secretary of State, dated June 20, 1940, recommending the enactment of such legislation.

Letter of the Acting Secretary of the Treasury, dated June 20, 1940, recommending the enactment of such legislation.

Letter of the Board of Governors of the Federal Reserve System dated June 20, 1940, recommending the enactment of such legislation.

Letter of the Assistant Director of the Budget, dated June 20, 1940, stating that there was no objection to the submission of such legislation to Congress for its consideration.

Letter of the Board of Governors of the Federal Reserve System, dated January 14, 1941, enclosing a draft of a bill identical with S. 390, stating that it had been agreed to by the Board, the State Department and the Treasury Department and recommending its early enactment.

"In view of the fact that an emergency of the kind contemplated by this bill may develop at any time, the Board earnestly hopes that the bill can be enacted at an early date."

Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.