

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 3, 1941, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman (most of meeting)
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

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

ALSO PRESENT: Mr. C. V. Gregory, Deputy Chairman of
the Federal Reserve Bank of Chicago

Reference was made to the article which appeared in the Chicago Tribune yesterday with respect to the situation which has developed in connection with the selection of a President and First Vice President at the Federal Reserve Bank of Chicago and there was a discussion of the desirability of issuing a statement in some form which would answer some of the possible implications of the news item. In this connection the suggestion was made that the Board's statement might be in the form of a reply to telegrams which had been received from Harry C. Hausman, Secretary of the Illinois Bankers Association, which Mr. Hausman would be authorized to release to the press.

Mr. Szymczak stated that during a conversation which he had this morning with Mr. Lewis, Chairman of the board of directors of the Federal Reserve Bank of Chicago, who is in Florida, Mr. Lewis

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said that he would be glad to come to Washington, or, if the Board desired, to have a committee of the Chicago board come down. Mr. Szymczak said he suggested to Mr. Lewis that, inasmuch as Mr. Gregory had been acting in Mr. Lewis' absence, he should communicate with Mr. Gregory.

Mr. Gregory reviewed his conversation with Mr. Cummings in Chicago yesterday during which the latter took the position that there was no need for an immediate meeting of the board of directors of the Chicago Bank for the purpose of taking further action with respect to the appointment of a President and First Vice President and in that connection called attention to the motion offered by Mr. Van Dusen and adopted at the last meeting of the directors that no meeting be held for that purpose until all of the members of the board could be present. Mr. Gregory stated that when that motion was made at the meeting of the directors he took the position that, if adopted, it would have no binding effect for the reason that the bylaws provided for a method for calling a special meeting and that if there appeared to be a need for a meeting, notwithstanding a motion to the contrary, he would have no hesitancy in calling one, but that he stated to Mr. Cummings yesterday that, in view of Mr. Van Dusen's motion, ample notice of a meeting would be given to all members of the board of directors so as to enable them to attend. Mr. Gregory added that Mr. Cummings stated that he would be willing to come to Washington at any time this week

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after Tuesday and that he (Mr. Gregory) would undertake to arrange a meeting of a committee of the board of directors with the Board of Governors on Wednesday, March 5, and would delay calling a meeting of the board of directors of the Bank until after the committee had met with the Board. Mr. Gregory made the further statement that Mr. Schaller, as President of the Chicago Bank, wrote a memorandum under date of February 28, 1941, designating Mr. Young to act as chief executive officer of the Bank until the next meeting of the board of directors which was in accordance with the provisions of the bylaws of the Bank.

During the discussion which followed it was understood that Mr. Gregory should request Messrs. Lewis, Cummings, Williams, and Estberg, and any of the other directors who he felt should be present, to attend a meeting with the members of the Board of Governors in Washington on Wednesday, March 5, 1941.

There was a further discussion of the question whether the Board should issue a statement to the press and it was understood that Mr. Thurston would prepare a draft of statement for consideration by the Board.

The conference then recessed and reconvened at 2:15 p.m. with the same attendance as at the morning session.

Messrs. Szymczak and Gregory left the room to talk over the telephone with Mr. Lewis and upon their return stated that Mr. Lewis said he would be in Washington for the meeting with the members of the Board on Wednesday, March 5. Mr. Gregory also said

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that Mr. Lewis stated that he had talked with Mr. Cummings and that he (Mr. Lewis) had agreed to call a meeting of the board of directors of the Bank after the meeting with the Board of Governors on March 5.

There was presented a draft of statement prepared by Mr. Thurston, which was in the form of a reply to the telegrams received from Mr. Hausman, Secretary of the Illinois Bankers Association, and after some discussion of the draft it was agreed that Messrs. Gregory, Morrill, and Thurston should retire and revise the statement. They withdrew from the meeting at 3:00 p.m.

Mr. McKee stated that under date of January 24, 1941, First Vice President Clerk of the Federal Reserve Bank of San Francisco sent to the Board a letter with which he transmitted (1) the results of an investigation made by a Federal Reserve Examiner for the purpose of determining whether on August 30, 1940, the Bank of America National Trust and Savings Association was an affiliate of Transamerica Corporation and (2) an opinion from Mr. Agnew, Counsel for the Federal Reserve Bank of San Francisco, to the effect that the national bank was an affiliate of the corporation. The letter also stated that it would be appreciated if the Board would confirm or correct Mr. Agnew's opinion.

Mr. McKee referred to a memorandum prepared by Mr. Baumann, Assistant Counsel, under date of February 21, 1941, which set forth the circumstances involved in the request from the San Francisco

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Bank and stated that, if all of the shares owned or controlled by the Transamerica Corporation on January 14, 1941, had been voted at the election of directors on that date, they would have constituted a majority of the shares voted, that this was probably true at the time of the 1940 election although it was not definitely established by the information submitted and that on August 30, 1940, Transamerica Corporation owned or controlled sufficient shares so that, if an election had been held on that date it could have voted a majority, assuming that no more of the common stock not so owned or controlled was voted than had been voted at the preceding election. The memorandum also stated that Mr. Agnew was of the opinion that the corporation was a holding company affiliate of the bank within the meaning of the portion of the definition of a holding company affiliate which includes any corporation which owns or controls, directly or indirectly, more than 50% of the number of shares voted for the election of directors of any one bank at the preceding election, that Mr. Agnew's opinion was in accordance with the Board's original position with respect to the interpretation of this portion of the definition as set forth in its telegram dated January 29, 1934, to the Federal Reserve Bank of San Francisco, but that subsequently certain cases arose in which the application of the original ruling would have caused seemingly paradoxical results which led the Board, in a series of individual cases, to abandon the position originally taken, and that on

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November 5, 1937, the Board advised the San Francisco Bank that the Board had no information indicating that Transamerica Corporation was then a holding company affiliate of the Bank of America and, unless there was some evidence of such a relationship, there was no reason why the Bank of America might not participate in an election of a class A director of the Federal Reserve Bank independently of any banks controlled by Transamerica Corporation.

The memorandum made the further statement that an opinion of the General Counsel for the Treasury in 1939 that Transamerica Corporation was a holding company affiliate of the Bank of America made no suggestion that the law should be interpreted in the manner suggested by Mr. Agnew's opinion and that, although the Securities and Exchange Commission had indicated that it considered the Bank of America a subsidiary of the corporation, the decision of the Commission was based on definitions materially different from the definition of a holding company affiliate. The memorandum also pointed out that to confirm Mr. Agnew's opinion and thus revert to the Board's original interpretation of the law would involve the reversal of a position well established by numerous rulings and generally known to interested parties and that, while it would be impossible to say how many cases would be affected by such action, few, if any, typical bank holding companies other than Transamerica Corporation would be affected and therefore in most cases the Board could determine that the companies involved were not holding company

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affiliates except for the purposes of section 23A of the Federal Reserve Act.

Mr. McKee stated that Counsel's Office was in agreement that Mr. Agnew's opinion was correct. He also said that under date of March 1, 1941, Mr. Clerk addressed a second letter to the Board in which it was stated that it would be very much appreciated if the Board would advise him by wire on March 3 when the Federal Reserve Bank might expect an opinion as to whether Transamerica Corporation was a holding company affiliate of Bank of America. In the circumstances, Mr. McKee said, the Board should reach a decision on the matter.

In the discussion which followed, Mr. Dreibelbis stated that there was also a question whether Transamerica Corporation was a holding company affiliate under another portion of the definition of a holding company affiliate which provides that a company is also an affiliate if it controls in any manner the election of a majority of the directors of any one bank. He added, however, that there was not sufficient information available to make it practicable to consider this question at the present time.

At the conclusion of the discussion of the matter, Mr. McKee moved that the Secretary be requested to advise Mr. Clerk by wire that, upon the basis of the facts submitted, the Board concurs in Mr. Agnew's opinion that Transamerica Corporation is a holding company affiliate of Bank of America National Trust and Savings Association, and that in the light of such opinion it was unnecessary to consider the applicability

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of the portion of the definition of a holding company affiliate which relates to the control of the bank in any manner.

Mr. McKee's motion was put by the Chair and carried unanimously.

At 4:35 p.m. Messrs. Gregory, Morrill, and Thurston, returned to the room and copies of the statement prepared by them, which was also in the form of a reply to Mr. Hausman's telegrams, were distributed and discussed but it was agreed that no decision should be reached on the statement pending further developments.

At the conclusion of the discussion Messrs. Thurston and Gregory left the room 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 March 1, 1941, were approved unanimously.

Letter to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"In accordance with the request contained in your letter of February 24, the Board approves the designation of E. A. Thaxton as special assistant examiner, with the understanding of course that he will not be transferred permanently to examination work without the Board's approval."

Approved unanimously.

Letter to the board of directors of "The Bippus State Bank", Bippus, Indiana, stating that, subject to conditions of membership numbered 1 to 6, inclusive, contained in the Board's Regulation H,

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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. Young, Vice 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 Bippus State Bank', Bippus, Indiana, 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 Director, Department of Financial Institutions for the State of Indiana for his information.

"Since it is understood that in the State of Indiana trust funds deposited in the banking department of a bank are preferred claims in the event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 6 until further notice."

Letter to the board of directors of the "Fowler State Bank", Fowler, Indiana, 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 amount of stock in the Federal Reserve Bank of Chicago:

"4. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$700, as shown in the report of examination of such bank as of

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"February 1, 1941, made by an examiner for the Federal Reserve Bank of Chicago."

Approved unanimously for transmission through the Federal Reserve Bank of Chicago.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"In view of the circumstances outlined in your letter of March 1, the Board extends to April 1, 1941, the time within which the 'Citizens State Bank of Fair Play', Fair Play, Missouri, may accomplish membership."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morie
Secretary.

Approved:

W. S. Carter
Chairman.