

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, March 24, 1941, at 3:30 p.m.

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

Mr. Morrill, Secretary

Reference was made to the action taken at the meeting of the Federal Open Market Committee on March 17, 1941, in recommending to the Board of Governors that the holdings of direct and guaranteed obligations of the Federal Reserve Banks be shown separately in the weekly statements of condition of the Federal Reserve Banks and in the Federal Reserve Bulletin published by the Board.

By unanimous action, it was voted to amend the weekly statement of condition of Federal Reserve Banks, commencing with the statement as of March 26, 1941, by dividing the item "U. S. Government securities, direct and guaranteed", appearing on the first page of the statement, into the items "U. S. Government direct obligations" and "U. S. Government guaranteed obligations".

It was also voted unanimously that, beginning with the Federal Reserve Bulletin for April, the appropriate bulletin table be amended to show separately the System holdings of direct and guaranteed obligations of the United States.

There was presented a letter dated March 7, 1941, from Mr. Sproul, President of the Federal Reserve Bank of New York, in which it was stated that, having in mind particularly the importance of

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closer relations with South America, the Bank had been considering the desirability of attempting to arrange with central banks, in countries where prevailing conditions made such action possible and appropriate, for the temporary exchange of younger members of the staff of the Federal Reserve Bank with similar employees from the respective foreign institutions. The letter stated also that the Federal Reserve Bank was able formerly to make such arrangements with some of the principal central banks in Europe, that recently Mr. Grumbach, Chief of the Foreign Department of the Banco Central de la Republica Argentina, visited the Federal Reserve Bank of New York when this matter was discussed and was cordial to the idea and indicated he would discuss it upon his return to Buenos Aires, that the plan contemplated that each bank would pay the salary and transportation costs of its own men during their assignment which would be for periods of approximately six months, that the Reserve Bank would like to know the views of the Board of Governors on the matter so that if anything should come of the matter with the Argentine central bank the Reserve Bank could proceed to make definite arrangements, and that the Treasury Department had suggested or had made such an arrangement with the officials of the Argentine bank.

The matter was discussed and Mr. Morrill was requested to prepare a draft of reply to Mr. Sproul's letter which would be sent upon approval by Mr. Szymczak.

Mr. Ransom referred to the action taken by the Board at the

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meeting on March 11, 1941, in appointing Messrs. Szymczak and Draper as members of the personnel committee of the Board for a period of one year beginning April 1, 1941, and stated that inasmuch as he and Mr. McKee, the present members of the personnel committee, became members of the executive committee of the Federal Open Market Committee on March 17, 1941, they would serve as members of both committees during the remainder of the month of March unless action was taken to correct the situation. During a discussion of the matter it was suggested that since the members of the executive committee of the Federal Open Market Committee are appointed at the first meeting of the Federal Open Market Committee after March 1 of each year to serve until the selection of their successors at the first meeting of the committee in March of the succeeding year, if the members of the personnel committee of the Board of Governors were appointed to serve for a similar period any conflict in the service of members of the Board on the two committees would be eliminated.

Mr. Ransom moved that the appointments of Messrs. Szymczak and Draper as members of the personnel committee be changed in accordance with the above suggestion and that all future annual appointments to that committee be for the period between the adjournment of the first meeting of the Federal Open Market Committee after March 1 of each year and the adjournment of the first meeting of the Federal Open Market Committee in March of the succeeding year.

Mr. Ransom's motion was put by the chair and carried unanimously.

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The action stated with respect to each of the matters herein-after 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 22, 1941, were approved unanimously.

Memorandum dated March 19, 1941, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the temporary appointment of George W. Blattner as special statistician in the Division of Research and Statistics, be extended for another year from March 29, 1941, with no change in his present salary at the rate of \$5,000 per annum. The memorandum stated that, in view of the circumstances set forth therein, Mr. Goldenweiser expected to make annual recommendations for the continuation of Mr. Blattner's employment as long as he continued to render useful service and there was appropriate work for him to do.

Approved unanimously.

Letter to Mr. Sinclair, Chairman of the Conference of Presidents, reading as follows:

"We wish to bring to your attention the matter of the methods used by the Federal Reserve Banks in calculating overtime payments for employees subject to the provisions of the Fair Labor Standards Act of 1938.

"As you know, the methods now being employed by the Federal Reserve Banks for this purpose are not uniform. The Board is advised that at six of the banks at least the method used in calculating overtime payments is based upon the assumption that the employee works a regular number of hours and accordingly the payment is at a fixed hourly rate based on the employee's salary. Although the Board's information as to the operation of this method is

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"not specific, it is understood that in such cases, where the regular number of hours worked is 40, for example, the hourly rate is determined by dividing the weekly salary by 40, and one and one-half times the hourly rate thus arrived at is paid for each hour of overtime. At another Federal Reserve Bank, however, in accordance with Interpretative Bulletin No. 4 of the Wage and Hour Division of the Department of Labor with regard to the calculation of overtime where there is a variable work-week, the hourly rate is computed by dividing the weekly wage by the total number of hours worked during the week. One Federal Reserve Bank determines the hourly rate by dividing the weekly wage by 40, even though the number of hours actually worked exceeds 40, and one-half of the resulting sum is paid for each hour of overtime. It is obvious that the last two methods described are less favorable to the employees than the one first mentioned above.

"You will recall that this matter was considered at the Presidents' Conference held on September 27-28, 1940. The tentative draft of the minutes of the meeting indicated that the Conference was of the opinion that all Federal Reserve Banks should have a uniform basis for determining the rate at which overtime payments are made, that a ruling as to the use of a 'variable workweek' basis by the Federal Reserve Banks should be obtained from the office of the Administrator of the Wage and Hour Division, and that all Federal Reserve Banks should be guided by such ruling. Under date of October 24, 1940, however, the Chairman of the Conference of Presidents addressed a letter to all other Reserve Bank Presidents with regard to this matter, in which he indicated the improbability of obtaining a ruling more favorable than that already in effect, and stated, among other things, that several of the banks had questioned the desirability of a uniform policy in respect to the matter and that it seemed preferable not to ask for a ruling that might impel uniformity. As a result of a suggestion in this letter, it was apparently agreed by the Presidents to change the minutes of the meeting so as to state an understanding that copies of a ruling of the New York Regional Director of the Wage and Hour Division on this subject would be sent to the members of the Conference so that each bank might determine whether or not it would use a variable workweek as the basis for computing overtime payments under the Fair Labor Standards Act of 1938.

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"In all the circumstances it is felt that the subject is one which deserves further consideration by the Presidents' Conference, and it is suggested that on the occasion of the next meeting of the Conference it include on the agenda as one of the topics for consideration the desirability of a uniform practice with respect to the computation of overtime by the Federal Reserve Banks under the Fair Labor Standards Act of 1938, together with such other problems, if any, as may have arisen under the Act and appear to warrant consideration by the Conference."

Approved unanimously.

Letter to Mr. J. C. Thomson, President of the Northwest Bancorporation, Minneapolis, Minnesota, reading as follows:

"This refers to your letter of March 14, 1941, relating to the application of the State Bank of Northfield for membership in the Federal Reserve System. We are glad to learn that you plan to proceed with the action necessary for the bank to be admitted to membership in the System and that you contemplate that one or more other State non-member banks affiliated with your corporation may apply for membership.

"Since most of the points outlined in your letter involve consideration by the Federal Reserve Bank of Minneapolis and it is the customary procedure for all applications for membership to be handled by the respective Federal Reserve Banks, we are forwarding a copy of your letter to the Federal Reserve Bank of Minneapolis, together with comments on certain matters mentioned in your letter, including an opinion of our counsel on the question which you raised as to the status of your corporation under the provisions of Section 3(c)(4) of the Investment Company Act of 1940. It is understood that in a long distance telephone conversation with counsel for your corporation last week, Mr. Cagle, of the Board's staff, explained the applicability of this section to your situation. It is contemplated that officers of the Federal Reserve Bank of Minneapolis will discuss with you further the various points outlined in your letter and it is hoped that the questions raised by you will be disposed of satisfactorily."

Approved unanimously, together with
a letter to Mr. Peyton, President of the

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Federal Reserve Bank of Minneapolis, reading as follows:

"There is enclosed for your consideration a copy of a letter which the Board received from the president of Northwest Bancorporation under date of March 14, 1941, and a copy of the Board's reply thereto, relating to the action required on the part of the corporation in connection with the application of the State Bank of Northfield, and possibly other banks in the group, for membership in the Federal Reserve System. With specific reference to the points mentioned, the following comments and suggestions are offered:

1. The matter of a new examination of the bank and charges therefor are matters left to your judgment under the general policies of the System.
2. Of course, the law provides for the minimum number of directors of a member bank and it is expected that if the bank is admitted to membership in the System it will comply, within a reasonable time, with the applicable statutes. In the absence of some requirement under the statute or special situation known to you, the Board will not insist upon an increase in the number of directors prior to the regular time set for the 1942 meeting of stockholders.
3. The memorandum which Mr. Thomson explained was furnished by Mr. Swanson, a copy of which is enclosed herewith, states the minimum requirements regarding the exhibits to accompany the voting permit application. Although circumstances such as substantial changes between the date of the latest annual report and the filing of the application may necessitate additional information or exhibits, the added requirements would not be likely to involve the preparation of any great volume of special data by the holding company affiliate. It is the purpose in connection with supplemental applications for voting permits to avoid placing any unnecessary burden upon the applicant. It is noted that in the explanation of Exhibit B in the memorandum it

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"is stated that certified copies of amendments to the charter or articles of incorporation and by-laws adopted subsequent to the previous application should be attached. Each annual report calls for such amendments. If such requests have been complied with, it would seem appropriate to limit the requirement in connection with this application to only such amendments as have been made since the submission of the latest annual report.

4. With regard to this matter, the Board's counsel is clearly of the opinion that it will not be necessary for the Board to make a 'determination' under the provisions of section 3(c)(4) of the Investment Company Act of 1940 if the Northwest Bancorporation applies for a general voting permit covering the State Bank of Northfield, since the Northwest Bancorporation now holds a general voting permit issued to it by the Board prior to January 1, 1940, and such permit would not be terminated upon the issuance of a new permit covering the State Bank of Northfield. Counsel for the Securities and Exchange Commission has informally agreed with this conclusion. This conclusion will, of course, be applicable in case other nonmember subsidiary banks of Northwest Bancorporation become members of the Federal Reserve System so long as the Northwest Bancorporation continues to hold a general voting permit issued to it by the Board prior to January 1, 1940.

"As you know, certain technical requirements must be met by any holding company affiliate in connection with each application for a voting permit before the Board may properly grant such permit under the provisions of existing laws. We have tried to hold such requirements to a minimum and if the Northwest Bancorporation could arrange for its other affiliated nonmember State banks to file applications for membership along with the application of the State Bank of Northfield all could be covered in one application for a voting permit. It is recognized, of course, that there

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"may be circumstances which would not make such procedure feasible at this time. It is not considered necessary or desirable to state specifically, at this time, what exhibits may be required or omitted in connection with possible applications for voting permits covering nonmember State banks in the group which may make application for membership in the System at some indefinite time in the future. It should be explained that the amount of data and the number of exhibits required would of necessity be determined on the basis of facts as they may exist at that time but ordinarily would be about the same as required in this case.

"It will be appreciated if you will acquaint Mr. Thomson with the Board's position with respect to the foregoing matters and make such confirmation of his understanding as in your judgment seems appropriate."

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

"Reference is made to your letters of March 6 and March 8, 1941, regarding the possible application of section 32 of the Banking Act of 1933 to the service of Mr. B. F. Pitman, Jr. of San Antonio, Texas, as a director of the Alamo National Bank of San Antonio, Texas and as operator of an investment business under the name of Pitman & Co.

"Section 32 applies if the type of business described in the section constitutes one of the primary activities of the company, even though it is not the most important activity. Therefore, Mr. Pitman has prepared certain information regarding the business of the company. This information shows the following percentages for the item that Mr. Pitman lists as 'underwriting':

'Underwriting'	1937	1938	1939	1940
volume in total				
volume	6%	.66%	8%	12%
'Underwriting' gross				
profit in total				
gross profit	14%	.75%	11%	17%

"If these figures represented the total business of the type described in section 32 there might be some question as to whether such business was a primary activity of the company, although it would seem likely that it was. It might be necessary to determine whether the 1940 figures, the

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"earlier figures, or perhaps some average, most nearly reflected the present activities of the company.

"It is to be noted, however, that the business described in section 32 is not merely the 'underwriting' of securities, but their 'issue, flotation, underwriting, public sale, or distribution'. The section does not cover brokerage business, by which is meant 'executing orders for the purchase and sale of securities on behalf of others in the open market'. (Regulation R, footnote 1.) The language quoted from section 32 and the exception for brokerage business are reflections of the underlying purposes of the section, and they must be read in the light of those purposes.

"The legislative history of the section indicates that it was one of the provisions of the Banking Act of 1933 designed to divorce commercial and investment banking and that this particular section was designed to eliminate the danger resulting from individuals serving a bank, which was a potential purchaser of securities, and being at the same time an underwriter, distributor, or dealer, who had a financial interest in promoting the sale or distribution of certain securities. The transactions referred to in section 32 would, of course, include secondary distributions as well as primary distributions and the sales would include any sale in which the dealer was in a position of a merchant selling his goods. The mere execution of brokerage orders in the open market is a different type of transaction from that described in section 32 because in such a brokerage transaction the broker has no financial interest in having a bank purchase one security in preference to any other.

"In view of these considerations it seems that the figures on 'underwriting' do not clearly indicate the activities of the company in the type of business described in section 32. For example, it appears that the business in which the company is stated to have acted as 'underwriter, or sub-underwriter, or agent' was substantially larger than that included in 'underwriting', amounting to the following percentages of total business:

1937	1938	1939	1940
5.8%	7.9%	8.4%	21%

"The percentage of profits attributable to this broader class of business is not indicated. It seems, however, that all such business is of the type described in section 32, and it appears to be steadily increasing. It also seems likely that some of the other business of the company may consist of dealings which, as indicated above, are of the

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"kind described in section 32. It would be desirable, therefore, to obtain further information as to the activities of the company, including the volume and profits attributable to business described in section 32. If, after consideration of such information, there seems still some doubt as to the applicability of the statute, it may be desirable to obtain supplemental information regarding such general questions as whether certain items of business are handled chiefly for sustaining or good will purposes rather than chiefly as a source of earnings, and how the current activities of the company - which are the controlling factor - compare with past activities or trends; and in this connection it may be desirable to consider whether the figures for some particular year should be disregarded, or given less weight, because of unusual conditions existing during that year in the company or in the business as a whole.

"It is recognized that the determination of the nature of a particular business, which is necessary in considering the effect of the statute, is sometimes a complex problem, and it is for this reason that the matter has been discussed rather fully in this letter in the hope that it may be of some assistance in developing the necessary information."

Approved unanimously.

Letter to Mr. Upham, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of March 17, 1941 enclosing a letter received by you from National Bank Examiner M. C. Wilde, dated March 6, 1941, with two forms used by the United States National Bank, Portland, Oregon, in connection with the acceptance of deposits. You request an expression of opinion by the Board as to whether deposits evidenced by one of such forms should be classified as 'time deposits, open account' or 'time certificates of deposit'.

"The certificate in question evidences the receipt by the bank of a certain sum of money which is payable to the depositor only upon the expiration of a period of notice 'which must be given by the depositor, in writing, to the bank not less than _____ days in advance of withdrawal'; and it appears that interest is payable on the expiration date and 'surrender of this certificate'. It

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"is understood that in some instances the depositor signs a notice of withdrawal on the form enclosed with Mr. Wilde's letter at the time of making the deposit and that if the depositor decides not to withdraw the deposit on the date specified by his notice of withdrawal, he merely executes another notice of withdrawal specifying a subsequent date.

"It is not clear from the certificate whether withdrawals of parts of the amount specified in the certificate, leaving the certificate outstanding, are contemplated or whether it is the practice in the case of every withdrawal to pay the full amount stated in the certificate and to require its surrender. While there is language in the certificate indicating that partial withdrawals are permissible, the provision for payment of interest upon the 'surrender of this certificate' seems to suggest that this is not the case and that upon any withdrawal the full amount of the certificate is paid and the certificate then surrendered.

"On this basis and assuming that the period of notice is not less than 30 days, it is believed that deposits evidenced by the form of certificate in question comply substantially with the definition of the term 'time certificate of deposit' contained in section 1(c)(3) of the Board's Regulation Q. Accordingly, since the definition of the term 'time deposits, open account' expressly excludes a deposit which constitutes a 'time certificate of deposit', it appears preferable that such deposits be classified as time certificates of deposit rather than time deposits, open account.

"As you know, of course, whether or not the deposits under consideration are classified as time certificates of deposit or time deposits, open account, the same requirements as to the maintenance of reserves and as to the payment of interest are applicable."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donal L. Dawson
Vice Chairman.