

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 22, 1942, at 2:40 p.m.

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

Mr. Morrill, Secretary  
 Mr. Bethea, Assistant Secretary  
 Mr. Carpenter, Assistant Secretary  
 Mr. Clayton, Assistant to the Chairman  
 Mr. Wyatt, General Counsel  
 Mr. Dreibelbis, Assistant General Counsel  
 Mr. Wingfield, Assistant General Counsel

Reference was made to the draft of program for the Chairmen's Conference on January 26, 1942, which had been prepared following consultation with Messrs. Ruml, McCabe, and Neely, and no changes were suggested. Mr. Morrill inquired what arrangements the Board desired to make with respect to a luncheon and a dinner for the Chairmen while they are in Washington for the Conference.

It was voted unanimously (1) to authorize the Secretary's Office to arrange for a dinner at the Mayflower Hotel or the Metropolitan Club for the evening of January 26, with the understanding that the cost of the dinner would be paid by the Board, (2) to arrange a separate luncheon for the Chairmen in one of the Board's dining rooms on January 26, and (3) to request Mr. Szymczak to invite Mr. Alvin Hansen to attend the dinner and make a talk following the dinner.

Reference was then made to the Presidents' Conference which will be held in Washington on February 2 and 3, 1942, and to the report

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of the special committee on self-insurance which was on the agenda for consideration by the Presidents at that time.

It was agreed unanimously that during the afternoon session of the Chairmen's Conference Chairman Eccles would inform the Chairmen regarding the self-insurance matter and the reasons why prompt action with respect thereto is desirable.

At this point, Mr. Parry, Chief of the Division of Security Loans, joined the meeting.

There was presented the following letter, dated January 19, 1942, from Mr. Brown, President of the Federal Advisory Council:

"I received today your letter of January 17, in answer to my letter of December 17, regarding the proposed amendment to section 7(d) of the Securities Exchange Act of 1934. While I and other members of the Council saw the memorandum sent us on November 15, containing the analysis made in the Board's legal division of the House committee print which contains the statement commenting on 7(d). 'The Board proposes that it be given wider discretion and that its rules be permitted to apply to unregistered and non-equity securities as well,' I did not realize, and I am quite confident, from their letters, that none of the other members of the Federal Advisory Council understood, its full import.

"Speaking for myself, I am not convinced by your letter that it is desirable to give the Board authority to make its regulations concerning extension of credit by other than brokers and dealers applicable to unregistered as well as registered securities.

"I desire, and believe the other members of the Council will desire to discuss this matter amongst themselves and with the Board. Our next meeting starts on February 15. My latest information is that hearings are due to start on the proposals to amend the Securities Exchange Act of 1934 tomorrow, January 20, and that Section 7(d) is part of the second matter on the agenda. It is practically impossible to arrange a meeting and discussion

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"between the Council and the Board prior to the time at which the committee plans to take testimony.

"I do not know what the Board's plan is in presenting its testimony on this section, but I would like to ask that when it is presented the Board state that the Federal Advisory Council would like to study the testimony presented in regard to this section and to discuss it with the Board, and to reserve to the Council the right to file a memorandum before the committee dealing with this section. I would appreciate if you would let me know as promptly as possible that this is agreeable to the Board.

"In order to keep the members of the Council advised of developments, insomuch as they have received a copy of your letter to me, at my request, I am sending a copy of this letter, to each of them."

It was stated that on January 20 Mr. Parry testified before the House Committee on Interstate and Foreign Commerce with respect to the proposed amendment to section 7(d) of the Securities Exchange Act, and that inasmuch as Mr. Brown's letter was not received until yesterday, January 21, it would not be possible to comply with the request contained in his letter since it was not anticipated that there would be any further appearance of a representative of the Board before the Committee in connection with the amendment.

Following a discussion of the action that might be taken in these circumstances, it was agreed unanimously, upon motion by Mr. Szymczak, that (1) a draft of letter should be prepared to Congressman Lea, Chairman of the House Committee, advising of Mr. Brown's request and stating that the next meeting of the Council would be held in Washington on February 15-17, 1942, following which the Council might wish to file a statement of its position in connection with the amendment, (2) that this draft

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of letter should be handed to Mr. Purcell, a member of the Securities and Exchange Commission, who is in charge of the hearings before the Committee, for submission to Congressman Lea, and (3) that a copy of the letter be sent to Mr. Brown with the statement that he would be advised as soon as a reply was received from Congressman Lea.

Following this action, Mr. Parry left the meeting and Mr. Gardner, Senior Economist in the Division of Research and Statistics, came into the room.

Consideration was given to a memorandum dated January 17, 1942, from Mr. Gardner, in which it was stated that hearings would be held in the near future before the Senate Banking and Currency Committee on the Inter-American Bank; that the Board might be called upon to testify at the hearings; and that aside from that phase of the matter the time at the disposal of the Board for choosing candidates for membership on the organization committee, for the board of directors of the Bank, and for the presidency of the Bank might be short, particularly if there is to be preliminary discussion of the candidates with other persons and agencies interested in the Bank.

In the discussion which ensued, reference was made to the suggestions offered by the Board's Personnel Committee and considered at the meeting of the Board on October 3, 1941, as to possible selections as the American director of the Bank and to the informal consideration that had been given subsequently to Mr. Grady, the new Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco,

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for that position.

While the discussion was in progress, Mr. Goldenweiser joined the meeting.

In connection with a reference to the legislative situation, Mr. Wyatt stated that the convention creating the Bank had been signed by the United States but would have to be ratified by the Senate, that thereafter the necessary enabling legislation would have to be passed by Congress, and that the hearings before the Senate Banking and Currency Committee, which had been asked for an advisory opinion by the Senate Foreign Relations Committee, would be in connection with the ratification of the convention.

At the conclusion of the discussion, Chairman Eccles suggested that Messrs. Wyatt, Goldenweiser, and Gardner be asked to prepare a draft of statement which the representative of the Board might make at the hearings, and that a meeting of the Board be held on Wednesday, January 28, 1942, at 10:30 a.m. to consider the statement.

Chairman Eccles' suggestion was approved unanimously, following which Mr. Gardner left the meeting.

There was then presented a letter dated January 13, 1942, from Mr. Lichtenstein, Secretary of the Federal Advisory Council, asking that he be advised of the subjects that the Board would like to have the Council discuss at its next meeting to be held in Washington on February 15-17, 1942.

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The Secretary was requested to inform Mr. Lichtenstein that the Board had no topics to suggest at this time but would be glad to consider with the Council any matters that it might wish to take up at the meeting.

Messrs. Leonard and Cagle, Assistant Chiefs of the Division of Examinations, were called into the meeting at this point.

Mr. McKee presented a draft of letter to Mr. R. P. A. Everard, Cashier of the Bank of America National Trust and Savings Association, San Francisco, California, reading as follows:

"This refers to your letter of January 15, 1942 relating to the filing of reports of affiliates of your bank as of December 31, 1941.

"A number of inaccuracies in your letter have been noted, including the statement that, in granting Transamerica Corporation permission to file a brief in support of its request for reconsideration of the Board's ruling that the corporation was a holding company affiliate of your bank, 'the Board assured the Bank that during the time the question was under reconsideration, the parties interested could disregard the ruling'. The Board did not give any such assurance to anyone.

"With respect to the question whether Transamerica Corporation now is a holding company affiliate of your bank, your letter does not contain the information necessary to determine whether Transamerica Corporation owns or controls, directly or indirectly, 'more than 50 per centum of the number of shares voted for the election of directors' of the bank at the election on January 13, 1942. Moreover, there also is the question, not mentioned in your letter, as to whether Transamerica Corporation 'controls in any manner the election of a majority of the directors' of your bank; in its rulings, to which you refer, the Board expressly reserved this question for future consideration. In the circumstances, the Board cannot concur with your conclusion that the holding company affiliate relationship between Transamerica Corporation and your bank has been terminated.

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"With respect to your request that the Board waive the requirement that your bank obtain and file reports for Transamerica Corporation and other affiliates of your bank as of December 31, 1941, you are advised that, under the provisions of section 5211 of the Revised Statutes of the United States and section 21 of the Federal Reserve Act, this is a matter coming within the jurisdiction of the Comptroller of the Currency and the Board has no authority to act upon your request."

Mr. McKee stated that, before taking action on the letter referred to above he would like to call the attention of the Board to a letter received under date of January 20, 1942, from Mr. West, Vice President of the Federal Reserve Bank of San Francisco, with which was enclosed a copy of a letter dated January 15, 1942, from the President of the First Trust and Savings Bank of Pasadena, California (a member bank, the control of the common stock of which and of the Temple City National Bank was recently acquired by Transamerica Corporation), in which approval was requested for (1) the retirement of the preferred stock of the bank, the sale of common stock, and the declaration of a common-stock dividend which would leave the total capital of the bank unchanged, (2) the acquisition of the assets of the Temple City National Bank in Temple City, California, which would be operated as a branch, and (3) the establishment of a branch at Alhambra, California. With Mr. West's letter there was also enclosed a copy of Mr. West's reply to the letter from the Pasadena bank, in which it was stated that there was no condition of membership requiring permission of the Board of Governors for the retirement of the preferred stock, provided the

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bank's capital was not reduced, and that a letter to the Board of Governors, to be transmitted through the Federal Reserve Bank, requesting permission to acquire the assets of the Temple City National Bank and to convert it into a branch and to establish a branch at Alhambra, was all that was necessary to place the matter before the Board.

Mr. McKee added that, in accordance with the action taken at the meeting of the Board on January 16, 1942, he had discussed with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, the application for membership filed by the organizers of the Peoples Bank of Lakewood Village, Los Angeles County, California, and that the Federal Deposit Insurance Corporation was of the opinion that, because of the special circumstances involved, the application should not be approved.

It was pointed out that, since the Pasadena bank is a subsidiary of Transamerica Corporation, permission by the Board to the former to establish additional branches would be contrary to the policy of the Comptroller of the Currency of refusing to grant permission to Bank of America National Trust and Savings Association to establish additional branches. During the discussion of this point, Mr. McKee read excerpts from the transcript of a telephone conversation which he had with Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, on January 19, 1942, in connection with the matters referred to above.

Chairman Eccles suggested that, because of the circumstances



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involved including the fact that the capital of Transamerica Corporation had not been considered adequate to take care of the needs of its existing subsidiary units, the Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency should reach an agreement upon the position that they do not look with favor upon any further expansion of banking offices under the control of Transamerica Corporation, either directly or indirectly. He felt that the reasons for the refusal of the Comptroller of the Currency to grant permission to Bank of America National Trust and Savings Association to establish additional branches, including the question of adequate capital, were sufficient to justify the Board in refusing to admit to membership any bank so controlled or to approve the establishment of additional branches by any such bank.

Mr. McKee expressed the opinion that the Board should seek legislation as promptly as possible in the field of bank holding companies and inquired whether the Board would be willing to authorize him to take steps to seek legislation which would (1) prevent further bank holding-company expansion except in cases where the expansion was at the request of the supervisory authorities for the purpose of taking care of a bad banking situation, (2) prohibit loans on stock which would extend control of bank holding-company affiliates, and (3) prevent a bank holding-company affiliate from acquiring or holding control of an uninsured bank.

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Chairman Eccles referred to conferences held last year with representatives of the Treasury and the Comptroller of the Currency in connection with the holding-company bill sponsored by the Treasury and to the correspondence exchanged between the Board and the Treasury in which the Board suggested a solution to the holding-company situation which was not acceptable to the Treasury. He also outlined the reasons which occurred to him why the present was not an advantageous time to seek bank holding-company legislation and suggested that the three Federal banking agencies should follow the uniform policy of refusing to permit further expansion by Transamerica Corporation to the extent that it was within their power to do so, and that if that did not solve the problem legislation might then be sought.

In a further discussion, Chairman Eccles made the additional suggestion that the matter be taken up with the Comptroller of the Currency and with Mr. Crowley for the purpose of getting their agreement to a uniform policy, and that Mr. Clerk be informed that the application of the Peoples Bank of Lakewood Village could be forwarded to the Board by the Federal Reserve Bank of San Francisco without recommendation as involving a matter of policy for determination by the Board.

It was agreed unanimously that Chairman Eccles' suggestion should be followed and that Mr. McKee would confer with Mr. Crowley and with the Comptroller of the Currency for the purpose of getting their

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approval of the program. It was also understood that Mr. McKee would suggest to Mr. Clerk by telephone that the membership application of the Peoples Bank of Lakewood Village be forwarded to the Board without the recommendation of the executive committee of the Federal Reserve Bank of San Francisco as a matter involving a question of policy for determination by the Board.

Upon motion by Mr. McKee, the letter to Mr. Everard was approved unanimously in the form set forth above, with the understanding that copies thereof would be sent to Mr. Clerk, Mr. Crowley, and the Comptroller of the Currency.

At this point Messrs. Wyatt, Goldenweiser, Dreibelbis, Wingfield, Leonard, and Cagle left the meeting 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 January 21, 1942, were approved unanimously.

Memorandum dated January 20, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Philip M. Kaiser as a junior economist in that Division, to become effective as of the close of business on January 19, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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

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"Referring to your letter of January 15, 1942, 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 1942."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks, with a copy to the Federal Reserve Defense Contract Officers, reading as follows:

"Enclosed you will find copy of a letter, dated January 20, 1942, addressed to the Board of Governors by the Honorable James Forrestal, Under Secretary of the Navy, and a copy of Governor Draper's reply thereto, relating to Executive Order No. 9001, dated December 27, 1941.

"In all probability the Defense Contract Officer at your head office and branches, if any, will receive requests from Inspectors of Naval Materiel, Supervisors of Shipbuilding, Commandants of Naval Districts, and contracting officers of the Navy for confidential reports regarding industrial concerns in connection with the awarding of contracts and the making of advance payments. It will be appreciated if you will forward to this office a copy of each of the reports made by the Defense Contract Officer at your head office and branches, if any, advising the name of the officer to whom the report was furnished and the name and address of the concern involved. In those cases where the report is furnished in connection with an advance payment request, please also set forth in the copy of the report forwarded to this office the number and amount of the contract, the date of its execution, the article or articles contracted for, and the amount of the advance payment requested.

"Your cooperation in assisting the Navy Department will be very much appreciated."

Approved unanimously.

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

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"There are enclosed for your information a copy of a Code of Wartime Practices for the American Press and a copy of Rules for the Guidance of Persons Corresponding with Foreign Countries issued by the Office of Censorship. That office has also recently issued a Code covering the operations of radio stations and a copy of this Code will be furnished you as soon as available.

"Arrangements have been made with the Office of Censorship to furnish Governor Draper with a supply of copies of future releases by the Office of Censorship to enable him to furnish a copy of each such release to each of the Federal Reserve Banks.

"In connection with the press and radio Codes above referred to, we have been advised by the Director of Censorship as follows:

'Upon instructions from the President, the Office of Censorship has undertaken to enlist the voluntary cooperation of the press and radio to prevent the domestic dissemination of information of aid to the enemy. Pursuant to that undertaking, this Office has distributed the attached codes of practice for publications and radio stations.

'This voluntary effort cannot possibly succeed if there are confusions and contradictions in the dealings of individual departments and agencies of the government with the press and radio.

'It therefore is requested that if at any time any official of your System either in Washington or in the field, desires that the press or radio or any part of it be requested to withhold dissemination of information, the request be transmitted to the Office of Censorship, rather than to any newspaper or news agency or any radio station direct.

'It should be emphasized that this request relates solely to the withholding of information from publication or broadcasting, and in no way refers to any affirmative action on the part of your System in making news available.'

"As you have heretofore been advised, Governor Draper has been designated as the Board's representative on the Censorship Operating Board and, if you should have any problem of the kind indicated in the above quotation, he

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"will be glad to take it up with the Office of Censorship."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morice  
Secretary.

Approved:

W. C. C. C.  
Chairman.