

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 26, 1942, at 11:30 a.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

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 25, 1942, were approved unanimously.

Letter to Mr. Fleming, Chairman of the Presidents' Conference Committee to Review the Operation of the Retirement System, reading as follows:

"I am returning herewith three sets of the questionnaires enclosed with your letter of February 6, 1942, in which all questions that relate to factual material have been answered.

"Since the Board will ultimately have to pass upon any changes in the Retirement System, it has been thought best not to ask it to express opinions or make suggestions with respect to prospective changes at this time.

"With respect to tabulation III B, we understand that this is intended to cover all employees whose retirement would be considered favorably if retirement allowances were adequate, regardless of their age. Based on information received from Division heads, there are no employees in the Board whose efficiency in their judgment is unsatisfactory because of impairment resulting from age. There

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"are, however, four or five employees on the Board's staff whom the Division heads might wish to retire if allowances were adequate. Only two of these employees, however, are members of the Retirement System of the Federal Reserve Banks, and they are marginal cases on which opinions might differ as to the advisability of their retirement."

Approved unanimously.

Telegram to the Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Atlanta, St. Louis, and Minneapolis, reading as follows:

"Referring amendment Regulation D effective with reserve computation period beginning February 28, Board assumes that all weekly reserve computation periods will end on Friday, which is in accordance with prevailing practice wherever there are any banks for which reserve deficiencies are computed on a weekly basis. Please advise."

Approved unanimously, with the understanding that a copy of the telegram would be sent to the other Federal Reserve Banks.

Letter to Mr. Agnew, General Counsel of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of February 5, 1942, to the Board enclosing copies of a letter of February 2, 1942, addressed to you by Morrison, Hohfeld, Foerster, Shuman, & Clark, San Francisco, California, and your proposed reply, dealing with certain questions involving the application of the ruling published in the Federal Reserve Bulletin for May, 1941, at page 399, relating to the existence of affiliate relationships where corporate stocks are pledged with member banks as security for loans.

"While they may be based upon actual cases, the questions as submitted are hypothetical and, as you know, it is the Board's usual policy not to rule upon such questions. This policy seems to be particularly appropriate

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"in the case of questions relating to affiliate relationships where such a variety of facts may have a bearing upon the answer in a particular case and the significance of any one fact may depend upon other related facts. In the circumstances, the Board believes that it should not attempt to rule upon the questions submitted.

"There is no objection, of course, to your discussing the questions with your inquirers, with the understanding that you are merely giving them the benefit of your views for the purpose of assisting them in formulating their own conclusions. We trust that the matter can be disposed of to their satisfaction on this informal basis.

"The Board's counsel who have reviewed your proposed letter wish to make the following suggestions for your consideration:

"In addition to pointing out, as you propose, that affiliate relationships may arise under provisions of section 2(b) of the Banking Act of 1933 other than the provision referred to in the Board's ruling, attention might be called to the fact that 'control' of stock and of elections of directors, within the meaning of section 2(b), may arise in various ways. In this connection, it perhaps should be emphasized that, even though a pledge agreement may be so worded that the agreement does not alone create an affiliate relationship, the existence of the agreement may be one fact which together with other facts will establish the existence of 'control.'

"With respect to question numbered 4, there may be doubt as to correct interpretation of the word 'default', as used in the portion of the pledge agreement relating to the transfer and voting of stock. This portion of the agreement is wholly meaningless if the default referred to occurs immediately upon issuance of the note and it is believed that, in order to give effect thereto, the word 'default' might be construed to refer to some later event. It would appear to be desirable to avoid any such ambiguity in the agreement.

"In connection with question numbered 2 it perhaps should be pointed out expressly that defaults prior to maturity of a note commonly result in acceleration of maturity; and, in answering question numbered 6, mention should be made of the fact that there may be defaults other than failure to pay on demand or upon the expiration of the stated time."

Approved unanimously.

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Letter to Mr. Ralph A. Young of the National Bureau of Economic Research, Incorporated, New York, New York, reading as follows:

"This refers to your letter of February 12, 1942, asking whether the Board has information on losses realized and estimated by the Federal Reserve Banks under Section 13b of the Federal Reserve Act. To December 31, 1941, the Federal Reserve Banks charged off losses on industrial advances and commitments of approximately \$1,000,000 and had made provision for estimated losses on such advances and commitments of approximately \$2,000,000. The earnings of Federal Reserve Banks on industrial advances and commitments were about \$500,000 in excess of expenses, losses, and provisions for losses. During the same period the Federal Reserve Banks made advances of \$80,000,000 and executed commitments to make advances which are still outstanding or on which no advance was made totaling \$73,000,000."

Approved unanimously.

Memorandum dated February 25, 1942, from Mr. Szymczak recommending that the Board reimburse Mr. Howard G. Mayer, Chicago, Illinois, for expenses in the amount of \$76.14 incurred by him in connection with a trip which he made to Washington on February 19, 1942, at the request of Messrs. Ransom and Szymczak, to discuss problems arising under Regulation W.

Approved unanimously, with the understanding that the expense would be charged to the item of traveling expenses in the budget of the Division of Security Loans.

Thereupon the meeting adjourned.

Robert M. Mowbray
Secretary.

Approved: [Signature]

[Signature]
Chairman.