

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 28, 1942, at 10:30 a.m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the  
Chairman  
Mr. Thurston, Special Assistant  
to the Chairman  
Mr. Goldenweiser, Director of the  
Division of Research and Statistics  
Mr. Leonard, Director of the Division  
of Personnel Administration  
Mr. Dreibelbis, Assistant General  
Council  
Mr. Vest, Assistant General Council

Reference was made to a memorandum prepared under date of July 13, 1942, in the Division of Research and Statistics relating to bank profits, and Mr. Szymczak stated that he had suggested that this subject be discussed at a meeting of the Board for the purpose of determining whether the Board wished to give direction for any further study of the problem. A general discussion ensued, during which the members of the Board agreed that the Board should continue to make such studies of the matter as would enable it to determine the earnings position of banks and the relation of money rates to

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earnings, particularly in the case of yields from Government securities. There was also agreement with the suggestion that any study of bank earnings should cover a sufficient length of time to include periods of depression as well as unusual business activity, and that in determining the amount of dividends paid consideration should be given to capital contributions made by shareholders during the period under study.

It was agreed that Mr. Goldenweiser and Mr. Smead, Chief of the Division of Bank Operations, should collaborate in continuing the study of the problem in the light of the discussion at this meeting.

At the request of the Personnel Committee, consideration was given to the question whether the Board should change or abandon the policy adopted in 1934 that the period of continuous service of Class C directors of Federal Reserve Banks (other than Chairmen and Federal Reserve Agents) and of directors of branches should be limited to six years. The reason for the request was that, if the policy were to be applied in connection with appointments of Class C directors for terms beginning January 1, 1943, the Deputy Chairmen of the Federal Reserve Banks of Boston, Cleveland, and Richmond would be ineligible for re-appointment, and that one of the difficulties with the application of the rule was that when it was adopted it was hoped that a similar requirement could be brought about for Class A and B directors. Since that had not been accomplished, new Class C directors who were

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appointed to replace directors retired in accordance with the six-year rule were at a disadvantage when serving with Class A and B directors who were continued beyond the six-year period.

It was suggested that, while the rule was a desirable one and should be effective as to all directors, inasmuch as it had not been adopted generally for Class A and B directors, the Board might take the position that, pending action by Congress on the matter, it would abandon the policy as it related to Class C directors, with the distinct understanding, however, that if at any time, whether at the end of one or more than one term, it appeared that an incumbent should not be reappointed or that a better man was available the incumbent would not be retained. There was unanimous agreement that, since the Board has authority to apply, and by regulation had applied, the six-year rule to the Board and Reserve Bank appointees to the boards of directors at the branches of Federal Reserve Banks, the policy with respect to such directors should not be changed.

During the course of the discussion, it was proposed that a possible solution of the problem for the time being would be for the Board to make an exception to the rule in the case of the three Class C directors referred to above or to take the position that the six-year rule should not be applied to Deputy Chairmen, but it was felt that this would not be a satisfactory solution of the matter.

At the conclusion of the discussion,  
it was agreed unanimously that Mr. Evans,

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with the assistance of Mr. Thurston, should prepare a draft of a statement that might be made by the Board in the event it should decide to abandon the six-year rule as applied to Class C directors, and that after the members of the Board had had an opportunity to read the draft the matter would be given further consideration.

Before this meeting the Personnel Committee had also suggested that the Board determine whether it would be desirable to ask the Division of Research and Statistics to submit a report as to the status of the various projects under way in the Division, so that unnecessary work could be eliminated and a procedure established whereby the progress of the various studies and projects could be properly controlled, and studies could be promptly terminated when the need for them was past. In connection with this matter, it was stated that in the report of the survey made of the Division of Research and Statistics last year by Mr. Koppang it was suggested that a procedure be set up in the Division under which the Director would hold regular meetings with the Assistant Director and section heads for the purpose of (a) reporting on major work recently completed, in progress, and contemplated in the sections, and (b) discussing the matters with which the Board was immediately concerned and on which the research personnel should be working.

Mr. Goldenweiser stated that before Mr. Koppang's report was submitted he had put an arrangement into operation under which

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he meets with the section heads on the second Monday of each month, and more frequently when necessary, to discuss matters of the kind referred to, that a report had not been made to the Board, but that he would be glad to do so if it was desired.

Chairman Eccles stated that the request of the Personnel Committee was not in any sense a criticism of the Division but had been made with the thought that it would be helpful to the Board in determining the extent to which the present personnel of the Division could undertake any additional work that might be found to be desirable in the future, and that to this end he would suggest that Mr. Goldenweiser be requested to submit to the Board a statement of (1) the regular work being done by the Division and the personnel engaged in that work and (2) the special studies and other work of a special nature being done in the Division and the personnel assigned to that work.

This suggestion was approved unanimously.

There was then presented a letter dated July 16, 1942, from Mr. Hays, Vice President of the Federal Reserve Bank of Cleveland, enclosing bills from Squire, Sanders & Dempsey, counsel for the Bank, for the following legal services rendered to the Bank for which the firm was not compensated by the regular retainer fee:

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In connection with foreign funds control . . .	\$ 250.00
Services prior to April 16, 1942, in connection with Regulation V and Executive Order 9112 . . . . .	2,500.00
Services from April 16 to June 30, 1942, in connection with Regulation V and Executive Order 9112 for the account of the War and Navy Departments . . . . .	5,000.00
In connection with other special matters . . .	3,500.00

The letter stated that at the present time the full time of two men from the legal firm was required in connection with closing Regulation V loans and the issuance of guarantees, that these services would be required as long as the present volume of applications continued, and that during such period the firm expected to bill the Bank at the rate of \$2,000 a month for these services. The letter requested that the Board approve the payment of the bills submitted and that it indicate whether it had any objection to compensation of counsel in the manner outlined.

Mr. McKee stated that it appeared that the Cleveland Bank was doing a considerable amount of legal work in connection with Regulation V loans made in its district that was not being done by any of the other Federal Reserve Banks, and that the question involved was whether, if the Bank were going to continue to perform these services, it should employ an attorney on a salary basis who could take care of the routine legal work of the Bank at a considerably smaller cost and continue to use the firm of Squire, Sanders & Dempsey for consultation on special matters. Mr. McKee made the

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further statement that he and Mr. Szymczak discussed this matter with Mr. Fleming, President of the Cleveland Bank, over the telephone yesterday and told him that, if the Bank were going to continue the present procedure with respect to Regulation V loans and guarantees, the Board probably would take the position that a full-time attorney should be employed on a salary basis. He also said there was some question whether reimbursement from the War and Navy Departments for the expenses incurred by the Bank on their account could be obtained, particularly in view of the fact that other Federal Reserve Banks were handling the matter without substantially increased costs for legal services, and that in view of all the circumstances it had been suggested that Mr. Vest go to Cleveland in the near future to review the whole situation and make a report to the Board.

Upon motion by Mr. McKee, this suggestion was approved unanimously, with the understanding that the Board would not be willing to approve an arrangement under which a monthly payment of \$2,000 would be made to Squire, Sanders & Dempsey as proposed in Mr. Hays' letter, and that it would favor the employment by the Bank during the emergency period of a full-time attorney on a salary basis and the continued retention of the firm of Squire, Sanders & Dempsey for consultation on special matters.

By unanimous vote, payment of the bills submitted with Mr. Hays' letter was approved.

At this point, Messrs. Thurston, Goldenweiser, Leonard, Dreibelbis, and Vest left the meeting, and the action stated with

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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 July 27, 1942, were approved unanimously.

Memorandum dated July 25, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Miss Carol Hubbard as a clerk in that Division, to become effective as of the close of business on July 28, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Paddock, President of the Federal Reserve Bank of Boston, reading as follows:

"As requested in your letter of July 23, 1942, the Board of Governors approves the increase in salary of Dana D. Sawyer, Manager of the Securities Exchange Division and Alternate Assistant Federal Reserve Agent, from \$3,800 to \$4,000 per annum, effective August 1, 1942."

Approved unanimously.

Letter to Mr. Klages, Deputy Chairman of the Federal Reserve Bank of Cleveland, reading as follows:

"As requested in your letter of July 16, 1942, the Board approves the payment of salary at the rate of \$4,500 per annum to Mr. W. Martin Morrison, Assistant Cashier, effective August 1, 1942, for the period ending April 30, 1943.

"The Board likewise approves the payment of salary at the rate of \$4,600 per annum to Mr. Clyde Harrell,



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"Assistant Cashier, effective August 1, 1942, for the period ending April 30, 1943."

Approved unanimously.

Letter to Mr. Sproul, Chairman of the Presidents Conference Committee on Bank Examination Procedure, Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of July 20 regarding the study being given to the matter of making some modifications in present examination procedure.

"We shall be glad to furnish your Committee with copies of the replies received to the Board's letter of July 7 to the Reserve Banks on this subject and shall welcome the opportunity of discussing the matter with the Committee. Replies from all of the banks have not yet been received; when the remaining replies are received we will forward copies to you. Then, after having given consideration to these replies, we can arrange for a conference."

Approved unanimously.

Thereupon the meeting adjourned.

Brester Morrie  
Secretary.

Approved: (

W. Sproul  
Chairman.