

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 4, 1942, at 9:30 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

There were presented telegrams to Mr. Paddock, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Secretary of the Federal Reserve Bank of Chicago, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on September 1, by the Federal Reserve Bank of Atlanta on September 2, by the Federal Reserve Banks of New York, Philadelphia, Chicago, Dallas, and San Francisco on September 3, 1942, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Before this meeting there had been circulated among the members of the Board a memorandum dated August 14, 1942, from Mr. Cherry,

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Assistant Attorney, submitting the following draft of letter to Alfred Jaretzki, Jr., of the law firm of Sullivan and Cromwell, New York, New York, as attorneys for the National Association of Investment Companies:

"Reference is made to the hearing held on June 5, 1942, in the office of Governor Szymczak at which time you requested the Board to amend its Regulation R so as to exempt interlocking relationships between member banks and open-end investment companies not engaged in issuing or distributing any securities other than their own.

"The Board has given careful consideration to this matter and also to the briefs which you filed with the Board. The Board feels, however, that it should not amend its Regulation R as requested."

The memorandum stated that in declining to amend Regulation R it should be realized that a number of existing relationships in the Boston and New York districts, and a few in other districts, would have to be terminated although some of these relationships had been maintained in reliance upon earlier rulings of the Board and of the Federal Reserve Banks, and that the request for an amendment to Regulation R grew out of later rulings of the Board which had the effect of prohibiting virtually all interlocking relationships between member banks and open-end investment companies.

The letter to Mr. Jaretzki was approved unanimously.

At this point, Mr. Vest, Assistant General Attorney, joined the meeting.

There was then presented a letter dated August 22, 1942, from Ralph K. Davies, Deputy Petroleum Coordinator for War, in which it was stated that the office of the Coordinator was studying the advisability

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of restricting retail credit sales of petroleum products by units of the petroleum industry; that a draft of directive, a copy of which was enclosed with the letter and which would eliminate all extensions of credit in connection with sales of petroleum products by or through retail petroleum products outlets, had been prepared in connection with this study as a basis for discussion and comment; and that if the matter were one of interest to the Board of Governors the office of the Coordinator would like to have the benefit of such comments and suggestions as the Board might care to make.

It was understood that Mr. Ransom would look into the matter with a view to having a draft of reply prepared for consideration by the Board.

Mr. Szymczak stated that the Board's letter of February 14, 1936, (X-9493), to the Chairmen of all the Federal Reserve Banks, stated that the Board felt it was desirable that the executive committee of a Federal Reserve Bank be composed exclusively of persons who are directors of the Bank, including the chairman of the board, and wished to suggest for the consideration of the boards of directors that the bylaws of the Banks be amended accordingly. This suggestion had been adopted sometime ago, Mr. Szymczak said, at all of the Federal Reserve Banks except Boston, Philadelphia, and Dallas where the bylaws provide that the President shall be a member and chairman of the executive committee; Richmond where the President is a member of the committee; and possibly Minneapolis where the bylaws provide for a committee of three directors without specifying that the Chairman shall be a member. Mr. Szymczak made the further

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statement that when Chairman Eccles was at the Federal Reserve Bank of Boston a short time ago reference was made to the fact that the composition of the executive committee of the Bank was not in accordance with the Board's suggestion, and that steps were being taken to make the necessary changes in the bylaws of the Bank to provide for a committee consisting only of directors and to make the Chairman of the board also chairman of the executive committee. Mr. Szymczak went on to say that the question remained what, if any, action the Board should take with respect to the other Banks that had not complied with the Board's suggestion and whether, in the event it was thought desirable to bring the matter up again, that step should be taken in the form of a letter to the Banks involved or by informal consultation.

All of the members present were in unanimous agreement that the matter should be handled informally and, upon motion by Mr. McKee and by unanimous vote, Mr. Szymczak was requested to take the matter up with the Federal Reserve Banks of Philadelphia, Richmond, Minneapolis, and Dallas at such times as appeared to him to be appropriate, having in mind that the Chairman of the Federal Reserve Bank of Philadelphia was absent a great deal of the time in connection with war work and that the Chairman of the Dallas Bank had gone into active military service.

At this point, Mr. Vest 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 September 3, 1942, were approved unanimously.

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Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in your letter of August 27, 1942, the Board approves the appointment of Laurence H. Jones, at present a Federal Reserve Examiner on the staff of the Board of Governors, as an examiner for the Federal Reserve Bank of Chicago. Please advise us of the date upon which this appointment becomes effective."

Approved unanimously.

Letter to Mr. George W. Pryor, Washington, D. C., reading as follows:

"This refers to your letters of August 10 and 15, 1942, relating to the application of Regulation W to credit extended by the Great Atlantic & Pacific Tea Company to its employees in the purchase of merchandise pursuant to arrangements between the Company and various dealers undertaking to honor Company purchase orders presented by Company employees. The merchandise, which may include listed articles covered in section 13(a) of the Regulation, is selected by the employee and delivered to him, but billed to the Company which pays the dealer and charges the amount of the purchase to the employee's account on the Company's books.

"You state that the employee is permitted to pay his account 'in any way convenient to him, either in one lump sum or in weekly instalments,' but that payment must be made by check or cash, rather than by salary deductions. The maximum credit available to an employee is \$50, and purchases in excess of this amount must be accompanied by payment for the difference. Accounts with the Company are supposed to be paid within 30 days although occasionally payment is not made by the 10th of the second month after the date of purchase.

"On the basis of the information submitted, it is the Board's view that the credit extended by the Company falls within the provisions of sections 2(f), 2(g) and 3 of the Regulation, necessitating compliance with section 5 relating to charge accounts. You will note that section 5(c) specifies when a charge account shall be deemed to be in default; and under section 5(b), no further credit purchases of listed articles may be made if default in an account occurs unless the default is cured by one of the methods specified in section 5(d).

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"While it is not entirely clear, it is possible that the Company also may extend credit of the type covered in sections 2(c), 2(e) and 3 of the Regulation, since you state that in some cases, which may involve listed articles, the employee may pay the Company 'in weekly instalments.' If these cases involve an undertaking or agreement by the employee to 'repay in two or more scheduled payments,' the credit would be subject to the down payment and other requirements of section 4 relating to instalment sales, and registration by the Company under section 3 would be necessary. With reference to any such instalment sales, it would, of course, be necessary that the Company make satisfactory arrangements, with the dealers or otherwise, for collecting the down payments required by section 4(a), making records of the transactions and furnishing the employees with the necessary Statement of Transactions as required by section 4(d).

"On the other hand, if the sales do not involve any such undertaking or agreement by the employee to repay in instalments, but the paying of weekly instalments is merely done by the obligor for his own convenience in retiring his obligation, the transactions might still be regarded as charge sales and would not be subject to section 4. If the credit extended by the Company is subject to section 5 only, it now has a general license under section 3(b) and registration is not necessary at this time. For your information, a copy of Regulation W is enclosed herewith.

"The administration of Regulation W has been decentralized among the twelve Federal Reserve Banks and their twenty-four branches. Therefore, it is suggested that further inquiries which you or your client may have be addressed to the Federal Reserve Bank of New York, since it is understood that the principal office of the Company is located in New York City."

Approved unanimously.

Letter prepared for the signature of Mr. Ransom to Mr. William A. Fowler, Acting Chairman of the Committee on Trade Agreements, Department of State, reading as follows:

"On behalf of Chairman Eccles who is temporarily away, permit me to acknowledge receipt of your letter in regard to having Mr. Walter Gardner and Mr. J. Burke Knapp represent the Board of Governors respectively on the Committee

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"on the Relation between the Domestic and International Measures Contemplated in Article VII of the Master Lend-Lease Agreements and the Committee on the Commercial Policy Aspects of Exchange, Monetary and Investment Problems. It is entirely agreeable to the Board to have Mr. Gardner and Mr. Knapp continue to participate on the committees in accordance with your request.

"Your suggestion that we might also be represented on other committees is very much appreciated. The participation which you have already arranged for Mr. Gardner and Mr. Knapp would appear to cover the matters in which the Board of Governors would be primarily interested."

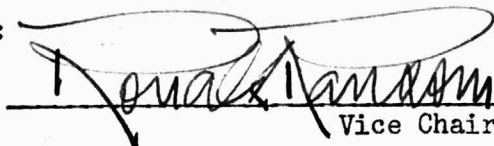
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.