

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 8, 1942, at 12:10 p.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  
Mr. Thurston, Special Assistant to the Chairman  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Dreibelbis, General Attorney  
Mr. Cagle, Assistant Chief of the Division of Examinations

Mr. Szymczak stated that on Saturday, September 5, 1942, Mr. Ruml, Chairman of the Chairmen's Conference, called him on the telephone and inquired whether, inasmuch as the agenda for the meeting of the Chairmen of the Federal Reserve Banks on October 5 would include, among other things, the executive development program of the System and the expanded activities of the research and statistical departments of the Reserve Banks, an invitation should be extended to the Committees on Personnel Selection and Training and Research and Statistics of the Presidents' Conference to meet with the Chairmen for the discussion of these matters. Mr. Szymczak said he told Mr. Ruml that he would take the matter up with the Board so that a decision on the matter could be reached. He made the further statement that, while his first impression was that it might be well

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to invite the Presidents' Conference Committee on Personnel Selection and Training to meet with the Chairmen, he had come to the conclusion that if that were done the Committee on Research and Statistics should also be invited, that, inasmuch as the membership of the two Committees includes nine of the Presidents, there would be no reason why the remaining Presidents should not be invited, and that he had come to the conclusion that because of the length of the program it would be better not to include the Presidents in the discussions at this time.

In this connection, Mr. Szymczak stated that the agenda for the Chairmen's Conference, which it was understood would be held at the Federal Reserve Bank of New York on October 5, 1942, and at which the members of the Board would be invited to be present, would include (1) the expanded studies to be conducted by the research departments of the Federal Reserve Banks pursuant to the Board's letter of July 21, 1942, (2) the executive development plan of the Federal Reserve System, (3) the functions to be performed by the branches of the Federal Reserve Banks, and (4) the relationship of the auditors at the Federal Reserve Banks to the boards of directors of the Banks and to the examiners of the Board of Governors.

The other members of the Board present were in agreement with the position taken by Mr. Szymczak with respect to inviting the Presidents to attend the Chairmen's Conference for the discussion of the first two items on the agenda, and it was understood that he would advise Mr. Ruml informally that under the circumstances the members of the Board felt that at this stage it would be

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better not to invite the Presidents to attend the Chairmen's Conference, it being understood, however, that the matters discussed at that time could be taken up with the appropriate committees of the Presidents' Conference and that, if subsequently it should be found desirable to have a joint meeting of the Presidents and the Chairmen, such a meeting could be held.

Mr. Szymiczak then reported that on Saturday, September 5, 1942, Mr. Brainard, Chairman of the Federal Reserve Bank of Cleveland, who was in Washington, called him on the telephone and stated that he had just had a telephone conversation with Mr. Fleming, President of the Cleveland Bank, in which the latter said that in view of the information that had been developed by Mr. Cagle with respect to the indebtedness and check kiting operations of Mr. Wagner, who had resigned as Vice President of the Bank, Mr. Fleming had decided that Mr. Wagner was not entitled to any compensation in the form of dismissal pay, and that, therefore, he (Mr. Fleming) wished to withdraw the suggestion that had been made informally that Mr. Wagner be paid compensation equal to two or three months' salary.

At the request of the Board, Mr. Cagle outlined the principal matters disclosed by his investigation of Mr. Wagner's activities, including false reports of his indebtedness, extensive check kiting operations, and substantial cash deposits in his personal checking account at the Cleveland Trust Company, at least one of which was made under circumstances which raised a question as to the source of the funds. A copy of Mr. Cagle's written report has been placed in the files of the Board.

It was reported that under date of September 1, 1942, the Board

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received a letter from Mr. Fleming stating that Mr. Wagner had resigned as Vice President of the Bank effective as of that date and that in the acknowledgment of the letter it was stated that it would be brought to the attention of the members of the Board of Governors in connection with Mr. Cagle's report.

A discussion ensued as to what further action the Board should take in the matter, and all of the members present were in agreement that Mr. Wagner's resignation should be acted upon by the board of directors of the Bank, that the directors should be fully informed of the circumstances which led up to Mr. Wagner's resignation, and that their action should be taken in the light of all of the facts.

At the conclusion of the discussion, Mr. Szymczak was requested, in collaboration with Messrs. Paulger, Dreibelbis, and Cagle, to prepare, for consideration by the Board, a draft of letter to Chairman Brainard along the lines suggested during the discussion.

At this point, Messrs. Thurston, Smead, Paulger, Dreibelbis, 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 September 5, 1942, were approved unanimously.

Memorandum dated September 3, 1942, from Mr. Stark, Assistant Director of the Division of Research and Statistics, recommending that Miss Regina E. Miller be appointed as a clerk in that Division, with

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salary at the rate of \$1,560 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated September 3, 1942, from Mr. Morrill, recommending that Sylvester M. Miller be appointed as an elevator operator in the Secretary's Office on a temporary basis for an indefinite period, with salary at the rate of \$1,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated September 3, 1942, from Mr. Stark, Assistant Director of the Division of Research and Statistics, recommending that the temporary appointment of Harvey S. Perloff, as an Associate Economist in that Division, be extended for an additional year upon its expiration at the close of business on October 6, 1942, with no change in his present salary at the rate of \$3,800 per annum.

Approved unanimously.

Memorandum dated September 2, 1942, from Mr. Morrill, recommending that the salaries of Miss Ida Goodloe and Gordon B. Grimwood, stenographers in the Secretary's Office, be increased from \$1,860 and \$1,560 to \$2,000 and \$1,680 per annum, respectively, effective September 16, 1942.

Approved unanimously.

Memorandum dated September 3, 1942, from Mr. Leonard, Director

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of the Division of Personnel Administration, recommending that J. Edward Kilgore, Administrative Assistant in that Division, be granted leave of absence without pay beginning September 5, 1942, so that he might enter active duty with the United States Navy, and that he be granted the benefits provided in the policy adopted by the Board on November 14, 1940, and amended August 20, 1941, for all employees entering military service.

Approved unanimously.

Letter to Mr. Luther Gulick, Director of the Office of Organizational Planning, War Production Board, reading as follows:

"Your letter of August 28, addressed to Chairman Eccles, has been brought to the attention of the Board, and careful consideration has been given to your request that Mrs. Nancy Randolph Porter, an employee of the Board's Division of Examinations, be loaned to your organization on a reimbursable basis for a period of perhaps ninety days. After canvassing the situation here, it appears that it will not be practicable to loan you the services of Mrs. Porter even for so short a period without going into the market to employ someone to take her place. The Board, therefore, feels that it is not in a position to comply with your request.

"The Board appreciates, however, the problem with which you are confronted and out of a desire to be as helpful as possible, and at the same time not stand in the way of any improvement in Mrs. Porter's situation, should she desire to enter your employ, it will interpose no objection to her release and will accept her resignation without prejudice."

Approved unanimously.

Letter to Mr. Creighton, Chairman of the Board of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of September 2, 1942, regarding the forthcoming election of directors by Group 3 member banks.

"The Board does not contemplate making any changes in the classification of member banks in your District for



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"electoral purposes at this time and, accordingly, the classification that has been in effect since August 1935 will apply for the forthcoming election."

Approved unanimously.

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

"This refers to your letter of August 21, 1942, requesting an expression of the Board's views as to whether a savings deposit, which otherwise conforms with the requirements of Regulation Q, may continue to be regarded as a savings deposit within the meaning of the Regulation after the payment of interest on such deposit has been discontinued.

"It is suggested in your letter that the special privileges given by the law to savings deposits must have been predicated upon the slowness of their turnover, which in turn results from the fact that they customarily bear interest. However, it is to be observed that one of the requirements of the definition of the term 'savings deposit' is that the bank shall reserve the right to require not less than 30 days' notice in writing before any withdrawal is made, and that under section 5(d) of Regulation Q, this requirement is applicable even though no interest be paid on savings deposits. As you know, there is nothing in the definition of the term 'savings deposit' which requires that interest be paid on a deposit in order for it to comply with this definition. On the contrary, Regulation Q itself seems to contemplate that there may be savings deposits upon which no interest is paid.

"Accordingly, it is the Board's view that a deposit which complies with the definition of the term 'savings deposit' contained in the Regulation may properly be considered a savings deposit within the meaning of the Regulation even though the payment of interest on such deposit has been discontinued."

Approved unanimously.

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

"The Board agrees with the opinion stated in your letter of August 29 that Item 35 of section 13(a) of Regulation W includes antique porcelain and any other article, whether or not it may be regarded as a 'work of art', if it may properly be classified as 'tableware \* \* \* designed for household use'."

Approved unanimously.

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Letter to Mr. Johnson, Manager of the Research Department at the Federal Reserve Bank of New York, reading as follows:

"Thank you for your letter of August 25 enclosing a list of the member firms of the New York Stock Exchange located in your district which reported customers' debit balances of more than \$5,000,000 as of June 30, 1942.

"The information that we have received on this subject from all of the Federal Reserve Banks indicates that no firms located outside of your district had debit balances exceeding \$6,000,000 on June 30, and consequently the following 15 firms which you listed are those which should continue filing monthly reports until further notice:

J. S. Bache & Co.  
Francis I. du Pont & Co.  
Goodbody & Co.  
Harris, Upham & Co.  
Hayden, Stone & Co.  
H. Hentz & Co.  
Hirsch, Lilienthal & Co.  
Hornblower & Weeks  
E. F. Hutton & Co.  
Carl M. Loeb, Rhodes & Co.  
Merrill Lynch, Pierce, Fenner & Beane  
Paine, Webber, Jackson & Curtis  
Shearson, Hammill & Co.  
Thomson & McKinnon  
Winthrop, Whitehouse & Co.

"We shall appreciate it if you will compile and send to us consolidated reports of these firms as of June 30 and July 31, which we can use for comparison with the consolidated reports that you will be sending to us for August 31 and future months. Also, on the dates in the future when the other firms file semiannual reports, we should like to obtain the figures of these 15 firms separately from those of the member firms which carry margin accounts but which will report semiannually.

"In case any of these 15 firms should be involved in mergers or consolidations, the respective successor firms should thereafter file the monthly reports."

Approved unanimously.

Letter to Mr. Beardsley Ruml, Chairman of the Conference of the Chairmen, Federal Reserve Bank of New York, reading as follows:



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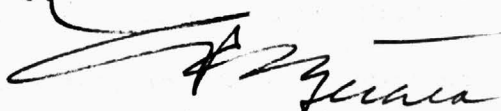
"A study is being made of the question what relations should exist between the Auditor of each Federal Reserve Bank and the Board's examination department and between the Auditor and the Chairman of the board of directors of the Federal Reserve Bank. It is felt that it is desirable that these relations be somewhat more clearly defined than they have been in the past and that if the subject could be taken up during the forthcoming Chairmen's Conference it would be desirable to give it some consideration. Therefore, I have been asked to submit this suggestion to you and if it meets with your approval we will be glad if you will include it in the agenda. Mr. Szymczak, as the member of the Board who gives primary consideration to such matters, will be prepared to open the discussion."

Approved unanimously.

Memorandum dated September 5, 1942, from Mr. Paulger, Chief of the Division of Examinations, submitting the travel expense voucher of Joseph H. Porter, a Federal Reserve Examiner, covering the period July 16 to August 31, 1942, and recommending that, because no other accommodations were procurable at the time and it was necessary for him to accept whatever space was available in order to proceed on August 31, 1942, to his next assignment, the payment of an additional expenditure of \$1.55 by Mr. Porter, covering the difference in the price of a standard lower berth and a drawing room, be approved.

Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.