

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 15, 1942, at 9:30 a.m.

PRESENT: 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. Thurston, Special Assistant to the Chairman
Mr. Dreibelbis, General Attorney
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel

Reference was made to a memorandum addressed to the Board under date of September 2, 1942, by Mr. Vest, to which was attached a summary of the replies received from the Presidents of the Federal Reserve Banks to the Board's letter of August 7, 1942, asking for the views and suggestions of the Banks regarding the problem of the absorption of exchange and collection charges by member banks. The file had been circulated among the members of the Board before this meeting, and the matter was considered in the light of the recent discussions of what, if any, action the Board should take.

By unanimous vote, the Legal Division was requested to prepare a memorandum setting forth the steps which it would recommend for consideration by the Board to meet the problem.

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There was then presented a letter addressed to Chairman Eccles under date of September 14, 1942, by Under Secretary of the Treasury Bell, referring to the change since April 1 of this year in the volume of excess reserves of member banks in central reserve cities and other member banks and to the agreement that a wider use of excess reserves of member banks outside of central reserve cities would be desirable. The letter also expressed doubt that there was sufficient information available to enable formulation of effective policies directed toward that end and stated that it would be helpful if the Board would have a study made of the distribution of excess reserves outside of central reserve cities, with particular reference to the location, size, and other characteristics (such as capital ratios) of the banks holding them.

It was understood that Mr. Thurston would call Mr. Bell on the telephone and ascertain in what form the information referred to in the letter was desired and obtain more definite advice as to the use to which it was expected to be put.

Mr. Ransom stated that, if, over the period of the next several months, substantial amounts of Government securities were purchased for the System open market account, the earnings of the System would be increased to a point which would raise the question whether Congress should restore in some form the provision previously in the law that excess earnings of the Federal Reserve Banks should be paid to the Government as a franchise tax. He said that in these circumstances he

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felt the Board should consider what its position would be on the matter and what, if any, action it should take.

At this point Mr. Paulger, Chief of the Division of Examinations, Mr. Leonard, Director of the Division of Personnel Administration, and Mr. Cagle, Assistant Chief of the Division of Examinations, joined the meeting.

Mr. Szymczak made substantially the following statement:

Yesterday Mr. Cagle and I attended the special meeting of the board of directors of the Federal Reserve Bank of Cleveland which had been called in connection with the indebtedness and check and other transactions of Mr. Wagner, who had resigned as Vice President of the Bank. At the beginning of the meeting, at which, in addition to Mr. Cagle and myself, all of the directors except Chairman Brainard were present, I reviewed the history of the development of information with respect to Mr. Wagner's involved financial condition, after which the directors inquired what the Board would like to have them do in the matter. I said that it was not my purpose to tell the directors what they should do but it was assumed that, inasmuch as they did not have full information with respect to the matter, they would wish to take steps to develop complete information as a basis for such action on Mr. Wagner's resignation as might appear to be necessary. I also said that they undoubtedly would want to find out whether anything Mr. Wagner had done had resulted in a shortage at the Federal Reserve Bank or whether, by virtue of his position as an officer of the Bank, he had obtained funds from other sources, and that to this end the directors might discuss the matter, first with President Fleming as the chief executive officer of the Bank, and thereafter with the other officers, including the Auditor and the Vice President in charge of examinations, who had had some contact with the matter, after which a decision could be reached as to what further action might be necessary. It was made clear that there was no disposition on the part of the Board of Governors to criticize anyone and that the only interest the Board had in the matter was to be sure that the responsibility of the directors and the Board was properly discharged.

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At this point, the directors called President Fleming into the meeting and Mr. Cagle withdrew, and there was a discussion of the relationship of the Auditor to the board of directors. It was stated that this matter was on the agenda for consideration at the forthcoming Chairmen's Conference and that the directors might wish to have the benefit of the discussions at that conference before reaching a final decision on that matter. I repeated again, in the presence of Mr. Fleming, that the Board of Governors was not undertaking to criticize anyone in connection with the Wagner matter and that the only interest the Board had in it was to be sure that the responsibility of the Board and the directors had been adequately met and that all of the facts necessary for a considered decision on Mr. Wagner's resignation had been developed.

At the conclusion of the meeting, the directors instructed the auditing committee to institute the necessary investigation of the entire matter, conferring first with President Fleming as the chief executive officer and such of the other officers as might be found to be desirable, after which it would be determined by the directors what further steps should be taken. It was understood that I would inform Chairman Brainard of the discussions at the meeting, that he would keep in close touch with the progress of the investigation, which should be made expeditiously, that the auditing committee would report to the board of directors at frequent intervals, and that whenever anything was developed which it was believed should be brought to the attention of the Board of Governors a representative of the board of directors would communicate with the Board of Governors or I would go to Cleveland again. In accordance with this understanding, I have talked to Mr. Brainard, and a letter is being prepared for my signature to him confirming the understanding and giving him information with respect to the indebtedness of Mr. Wagner at Cleveland banks, the nature and extent of his check kiting operations, and the large deposits made by him in his checking account.

During the discussion of the relationship of the Auditor to the board of directors, an opportunity was presented for me to discuss in some detail the System program of executive development and the consideration which was being given to the expansion of the functions and services of the branches of Federal Reserve Banks, and the directors expressed themselves as being in full agreement with what was being proposed.

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Toward the end of the meeting of the directors, Mr. Klages stated that, as a means of protecting the rights of First Vice President Zurlinden (who had recently reached the age of 65) under the retirement system and in order to provide an opportunity for the proper training of an officer of the Bank to succeed Mr. Fleming as President upon his retirement in 1946, the directors recently had informed Mr. Zurlinden that they proposed to retire him as of February 28, 1943. I took the position that the Board of Governors had approved the appointment of Mr. Zurlinden as First Vice President for a term of five years from March 1, 1942, that if the board of directors of the Bank had any plans with respect to his retirement they should have been taken up with the Board of Governors before they were discussed with Mr. Zurlinden, and that before any further action was taken a committee of the directors should meet with the Board in Washington at a time when all of the members of the Board were present for the purpose of reviewing the whole problem of official personnel at the Cleveland Bank. The directors agreed that they would proceed in accordance with this suggestion.

During the afternoon, I had an opportunity to talk with Mr. Fleming and Mr. Hays about expanding the functions and services of the Pittsburgh and Cincinnati Branches.

As the result of recent discussions, the directors have decided to continue the present arrangement with Squire, Sanders & Dempsey as Counsel for the Bank and to appoint one of the employees of the Bank, who is a member of the bar and who has practiced law, as assistant counsel. A letter asking for the Board's approval of a salary for the new appointee will be submitted to the Board in due course.

Following Mr. Szymczak's statement, Messrs. Thurston, Paulger, Dreibelbis, Leonard, Vest, Wyatt, 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 12, 1942, were approved unanimously.

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on September 14, 1942, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September 14, 1942, were approved unanimously.

Memorandum dated September 9, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that the following increases in salaries of employees in that Division be approved, effective as of September 16, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Louis W. Zidek	Assistant Examiner	\$1,900	\$2,100
Edward S. Myers	Assistant Examiner	2,300	2,500
Herbert H. Hagler	Assistant Examiner	2,900	3,100
Carroll R. Highfield	Assistant Examiner	2,300	2,500
Robert J. Schoenhoff	Assistant Examiner	2,500	2,700
J. Fred English	Assistant Examiner	2,900	3,100

Approved unanimously.

Memorandum dated September 15, 1942, from Mr. Carpenter, submitting the resignation of Rexford Kirkland as a senior operator (duplicating devices) in the Secretary's Office, to become effective as of the close of business on September 27, 1942, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

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"In accordance with the request contained in your letter of September 1, 1942, the Board of Governors approves the payment of salaries to Minor B. Smith, General Clerk, Discount Department, at the rate of \$3,720 per annum, and W. W. Tongue, Statistician and Analyst, Research and Statistics Department, at the rate of \$3,800 per annum, which is \$220 and \$200, respectively, in excess of the maximum annual salaries provided in the personnel classification plan for these positions."

Approved unanimously.

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

"The Board has received from the War Department a memorandum dated September 10, 1942, signed by Lieutenant Colonel Paul Cleveland, regarding the cancellation of terminated guarantee agreements previously executed by the Federal Reserve Banks on behalf of the War Department under Executive Order No. 9112. For your information and guidance the statement regarding this matter contained in the War Department's memorandum is set forth below:

'1. In a number of cases, guarantee agreements executed by the Federal Reserve banks, as fiscal agents of the United States, have been terminated, either because of payment of the loan, execution of a superseding guarantee agreement, surrender of the guarantee agreement by the financing institution, or for some other reason.

'2. In all these cases, all executed copies of the terminated guarantee agreements in the possession of the Federal Reserve banks and the financing institutions should be physically cancelled, either by stamping the word "cancelled" over the signature of the Federal Reserve Bank, or by perforation of the signature of the Federal Reserve Bank.

'3. In any case where the guarantee agreement in question has not already been physically cancelled, it is suggested that the best procedure will be for each Federal Reserve Bank to write to the financing institutions, requesting them to physically cancel the guarantee agreements in question, in the manner specified above, and to advise the Federal Reserve Bank that this has been done. The

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"Federal Reserve Bank should then cancel its copies in the same manner.

'4. It is requested that all the Federal Reserve banks be asked to forward to the War Department at their early convenience a list of all guarantee agreements that have been so cancelled, and that thereafter they inform the War Department each time an executed guarantee is so cancelled.'

"In accordance with the fourth paragraph of the War Department's memorandum, it will be appreciated if you will forward to the Board at your early convenience for transmittal to the War Department a list of all guarantee agreements executed by your bank on behalf of the War Department which have been cancelled as the result of their termination. It will also be appreciated if in the future you will advise the Board of each such cancellation of an executed guarantee agreement in order that we may transmit advice thereof to the War Department."

Approved unanimously.

Letter to Colonel John C. Mechem, Chief of the Miscellaneous Branch, Fiscal Division, War Department, reading as follows:

"Referring to our letter of August 21, 1942, in explanation of how charges for various expense items incurred by the Federal Reserve Banks on behalf of the War Department pursuant to Executive Order 9112 are determined, and to your telephone request with respect thereto, our instructions to the Federal Reserve Banks provide as follows:

'No portion of the salary of the President or First Vice President should be charged to the "Fiscal Agency, Custodianship, and Depository" function as a reimbursable expense, and no portion of the salary of any other senior officer (including Branch Managing Director) should be charged to a unit of the "Fiscal Agency, Custodianship, and Depository" function as a reimbursable expense unless he devotes as much as 20 per cent of his time to such unit.'

"Pursuant to this instruction, no Federal Reserve Bank will ask for reimbursement for any portion of the salary of a senior officer of the Bank unless he devotes as much as 20 per cent of his time to work performed as fiscal agent of the United States pursuant to Executive Order 9112 on behalf of the War Department, Navy Department and Maritime

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"Commission, and no reimbursement will be requested for any portion of the salary of the President or First Vice President of the Bank.

"We are today writing a letter to the Federal Reserve Banks advising them that it is the desire of the War Department that no furniture and equipment be purchased by the Bank for use in connection with work performed for the War Department pursuant to Executive Order 9112 without first obtaining approval of the War Department. A copy of our letter to the Federal Reserve Banks is enclosed."

The letter to the Presidents of the Federal Reserve Banks referred to in the last paragraph of the letter to Colonel Mechem read as follows:

"Colonel Mechem of the War Department recently advised us informally that one or two of the Federal Reserve Banks had requested reimbursement for the cost of furniture purchased for use in connection with work performed for the War Department pursuant to Executive Order 9112. He stated that he would prefer not to have to maintain an inventory record of furniture and equipment purchased by the Reserve Banks as fiscal agents of the War Department, and hoped that such purchases could be avoided.

"If your Bank finds that it does not have furniture and equipment which it can use on a rental basis in handling work for the War Department or finds it impracticable to purchase furniture and equipment for its own account to be used on a rental basis in connection with work performed for the War Department, it will be appreciated if you will write us with respect thereto giving full details. Upon receipt of your letter we will take the matter up with the War Department to see what procedure can be worked out for acquiring the necessary furniture and equipment."

Approved unanimously.

Letter to Mr. Sanford, Manager of the Foreign Department of the Federal Reserve Bank of New York, reading as follows:

"As requested in your letter of September 11, the Board has increased to a total of \$350,000,000 the authority given to your bank in the Board's telegram of

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"December 16, 1941, as amended by its letter of May 25, 1942, to purchase United States Government securities for the account of foreign central banks and governments."

Approved unanimously.

Telegram to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel September 12, Board approves your recommendation that during war emergency any nonmember bank in Hawaii or Alaska be permitted to carry an account with Federal Reserve Bank of San Francisco through which no transactions will be permitted except those arising from book transfers to and from a member bank for the nonmember bank's own account. Governor McKee is writing Walsh of American Security Bank, Honolulu, suggesting he get in touch with you. Please advise Board when arrangements have been completed."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved:

Donald Morrison
Vice Chairman.