

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, December 16, 1942, at 11:00 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

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 December 15, 1942, were approved unanimously.

Memorandum dated December 9, 1942, from Mr. Morrill, recommending that the following increases in salaries of employees in the Secretary's Office be approved, effective as of December 16, 1942:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Paul H. Berntson	Clerk	\$2,200	\$2,400
Louise Thomason	Clerk-typist	1,680	1,800
Vivian Haislip	File Clerk	1,740	1,860
Margery D. Maize	File Clerk	1,740	1,860
Thelma E. Ward	File Clerk	1,620	1,740
Beatrice Hunter	File Clerk	1,620	1,740
Emily A. McAllister	Junior File Clerk	1,560	1,680
Mary J. Dodge	Junior File Clerk	1,560	1,680
Helen A. Haltigan	Junior File Clerk	1,440	1,560
Loretta D. Beale	Junior File Clerk	1,440	1,560

Approved unanimously.

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

"The National War Labor Board in its General Order No. 19 has prescribed a special procedure for handling adjustments in salaries for employees of the Federal Reserve Banks and the Board coming within its jurisdiction. The order reads as follows:

'General Order No. 19 (a) The Board of Governors of the Federal Reserve System and any of the twelve Federal Reserve Banks, which proposes to make adjustments in the salaries or wages of their employees not fixed by statute, which would otherwise require the prior approval of the National War Labor Board, may make such adjustment on certification to the Board that the adjustment is necessary to correct maladjustments, or to correct inequalities, or gross inequities, as defined in the Board's Statement of Wage Policy of November 6, 1942, and any other General Order or policy heretofore or hereafter announced thereunder.

'(b) A certificate by the official authorizing the adjustments, stating the nature and amount of such adjustment and briefly setting forth the facts meeting the foregoing requirement will be accepted by the Board as sufficient evidence of the propriety of the adjustment, subject to review by the Board. Modification by the Board of adjustments made pursuant hereto shall not be retroactive.

'(c) In the case of adjustments made hereunder by any of the twelve Federal Reserve Banks, the certificate above mentioned shall, prior to transmittal to the Joint Committee hereafter described, be transmitted to and shall be subject to the approval of the Board of Governors of the Federal Reserve System.

'(d) The certificate prescribed herein, together with four (4) copies thereof, shall be filed promptly with the Committee established by joint action of the National War Labor Board and the Commissioner of Internal Revenue, namely, the Joint Committee on Salaries and Wages, Room 5406, Department of Labor Building, Washington, D. C., which will forward the same to the Board or Commissioner, as the case may require.

'(e) The certification procedure shall not apply to any adjustment which would raise salaries or wages beyond the prevailing level of compensation for

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"similar services in the area or community. In exceptional cases where such an adjustment is sought, and in all cases where an adjustment is sought other than by the certification procedure, application for approval shall be filed with the appropriate regional office of the National War Labor Board."

"As stated in the memorandum transmitted with letter PA-4 of December 12, there is no standard form for the certificate referred to in the order.

"You will note that all adjustments in salaries certified under the above procedure will be reviewed by the War Labor Board. The success of this special arrangement, therefore, depends to a large extent upon the cooperation, discretion and wisdom exercised in the matter of recommending and approving increases in salaries. We appreciate that there may be a number of questions which will occur to the Federal Reserve Banks in following the procedure set forth above, but questions may best be answered in the light of specific cases as they arise. It is suggested that you avail yourself of the advice of counsel for your bank in handling these matters, at least at the outset.

"While the above order does not cover adjustments in salaries coming within the jurisdiction of the Commissioner of Internal Revenue, it is expected that he will give approval to a similar procedure. In the meantime, however, you may certify all cases requiring certification even though some may be within jurisdiction of Commissioner of Internal Revenue.

"While the following do not represent rulings of the National War Labor Board or the Commissioner of Internal Revenue, it is believed that for the time being the Board and the banks can proceed on the following basis:

1. The certification procedure applies to salary and wage adjustments which would otherwise require the prior approval of the National War Labor Board or the Commissioner of Internal Revenue. It does not apply to salary and wage adjustments which may be effected under the provisions of Section 4001.6 of the regulations issued by the economic stabilization director and approved by the President on October 27, 1942.

2. The general rule of certification procedure is that it is to be used within the limits stated in the War Labor Board's general order No. 19 for salary and wage adjustments requiring the approval of the Board of Governors such as:

- a. Increases in maximum annual salaries under the Personnel Classification plan.

- b. Increases in individual salaries in excess of the maximum annual salaries under the Personnel Classification plan.

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"3. Certification, however, is not required in certain types of changes in the Personnel Classification plan even though they require approval of the Board, such as:

a. Changes in the description of duties or titles of positions when such changes do not involve increases in maximum annual salaries.

b. Creation of new positions due to new activities or reorganization of work when the maximum annual salaries for new positions are comparable to existing maximum annual salaries under the Personnel Classification plan for positions with comparable responsibilities.

4. Individual merit increases in salaries of officers which fall within the general pattern of salaries in the bank, even though there is no formal salary plan for officers, come within the scope of Section 4001.6 for which approval of the Commissioner of Internal Revenue or the War Labor Board is not required."

Approved unanimously.

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

"As requested in your letter of December 3, the Board of Governors approves the payment of salaries, effective January 1, 1943 or such later date as the board of directors may determine, for the period ending April 30, 1943, at the following rates as fixed by your board of directors:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Head Office</u>		
A. H. Laning	Cashier	\$7,000
C. J. Bolthouse	Assistant Cashier	5,800
Walter Findelsen	Assistant Cashier	5,400
<u>Pittsburgh Branch</u>		
J. W. Kossin	Branch Manager	8,000
A. G. Foster	Cashier	7,500
J. A. Schmidt	Assistant Cashier	5,000
R. J. Steinbrink	Assistant Cashier	4,000

"It is understood that the proposed salary of \$5,400 for Mr. Bolthouse shown in your letter of December 3 was a typographical error and that the correct amount should be \$5,800, the amount which has been approved.

"Action on the proposed increase in the salary of Mr. Hays has been deferred until the Board can discuss with your committee the program which the directors have in mind for replacing the senior officers who will retire within

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"the next few years. It is understood that you feel that such a meeting can be arranged shortly after the first of the year, and we will endeavor to arrange with you later for a mutually convenient date."

Approved unanimously.

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

"Retel December 15.

"Reply to your letter of December 3 sent by airmail this morning. No objection to continuing title of Managing Director until after discussion with your committee in January."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of December 10, 1942, submitting the request of The Citizens Bank of White Plains, N. Y., White Plains, New York, for permission to reduce the par value of its 4,000 shares of common stock outstanding from \$400,000 (\$100 per share) to \$200,000 (\$50 per share).

"In view of your recommendation and the information submitted the Board approves the proposed reduction in the par value of the common stock of The Citizens Bank of White Plains, N. Y., provided the approval of the appropriate State authorities is obtained and with the understanding that any portion of the released capital not used to write down the carrying value of the bank's assets will be added to the surplus account."

Approved unanimously.

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the Danville Loan and Savings Bank, Danville, Virginia, became a member of the Federal Reserve System on December 15, 1942 and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in

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"connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act."

Approved unanimously.

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

"It is desired that the regular annual reports of holding company affiliates on Form F.R. 437 be obtained for the year ending December 31, 1942, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Accordingly, please request each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, to file such a report in duplicate with your bank. It is desired that the reports be available as soon as practicable, and it is therefore suggested that, in accordance with the usual practice, you request each holding company affiliate to submit its report not later than February 1, 1943. However, it is recognized that, due to personnel shortages or for other reasons, some of the holding company affiliates may be unable to submit their reports by that time. If you are satisfied that it would not be practicable for a holding company affiliate to complete the preparation of its report by February 1, you are authorized to extend the time for filing the report, but no such extension should be granted beyond March 1, 1943. In this connection, attention is directed to the fact that it is not necessary for a holding company affiliate to delay filing its report to the Board until its annual audit by public accountants is completed, and that item 5 on page 9 of Form F.R. 437 makes provision for submitting separately a copy of the annual report to shareholders if such report has not been completed when the annual report to the Board is filed.

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"We have on hand a limited stock of Form F.R. 437 and shall appreciate it if you will inform us promptly as to the number of copies of the form which your bank will need, in excess of its present stock, in obtaining the reports of holding company affiliates in your district. It has been noted that in the past some of the holding company affiliates have not filled out the blank form but have used it only as a model for typewriting their reports. If such holding company affiliates desire to continue that practice, it is suggested that it may not be necessary to furnish additional copies of the form to them. Since the form has not been revised, such holding company affiliates might be requested to submit their reports in the same form and subject to the same instructions as in previous years.

"As shown in the list enclosed with the Board's letter of December 3, 1942 (S-594), Budget Bureau Approval Number 55-ROO1-42 has been assigned to Form F.R. 437. It is suggested that, before any holding company affiliate is supplied with copies of the form from your present stock, the Budget Bureau Approval Number be typewritten in the upper right-hand corner of page 1 of the form, in accordance with the pattern set out in S-594.

"For further information as to the procedure to be followed in obtaining the reports, please refer to the Board's letter of December 23, 1938 (R-368) and the memorandum enclosed therewith (R-368-a). The instructions contained in such letter and memorandum are still applicable to the handling of the reports. However, it is felt that some modification can be made in the requirement of the last two sentences of the memorandum that copies be obtained of the latest reports of examination by State supervisory authorities of nonmember uninsured subsidiary banks. Instead of the furnishing of complete copies of such reports, it will be sufficient for our purposes if they are made available to your bank for analysis and a copy of the analysis of each such report of examination is submitted to the Board."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Honorable Robert F. Wagner, United States Senate, reading as follows:

"This is to acknowledge your letter of December 3 enclosing statements by representatives of open end investment companies suggesting that the Board issue a general regulation under the provisions of section 32 of the Banking Act of 1933 permitting officers, directors and employees of member banks to serve as officers, directors and employees of open end

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"investment companies to the extent authorized by the Investment Company Act of 1940. Section 32 prohibits such service unless permitted by general regulations of the Board when in its judgment it would not unduly influence the investment policies of a member bank or the advice it gives its customers regarding investments.

"In view of the fact that open end investment companies are constantly offering their shares for sale to the public, the Board has felt that it would not be appropriate for it, under the directive given by Congress, to permit interlocking personnel of member banks and open end investment companies. The position taken by the Board has been influenced not only by the terms but also by the background of section 32. The Banking Act of 1933 was the outgrowth of the Congressional investigation of the 1929 stock market crash and one of the principal purposes of the Act was to divorce commercial and investment banking. Securities affiliates of member banks were prohibited and a similar divorcement was required with respect to personnel.

"When section 32 was first enacted it contained a provision authorizing the Board to issue permits in individual cases, and the Board decided that in issuing or withholding a permit it should not be governed by its opinion as to the character of the particular applicant but rather by the nature of the interlocking relationship. The Board felt that it should deny applications in all cases where the relationship was of the kind contemplated by the statute since in all such relationships there was a conflict of interest and the danger that the applicant might be placed in the position of trying to serve two masters. The statute was later amended so as to take away the power to grant individual permits and the Board was authorized to make exceptions only by regulations of general applicability, and in deciding whether or not to issue such general regulations the Board has followed the same principles which it followed in acting on individual applications.

"When the Investment Company Act of 1940 was enacted it was provided that no investment company may have as a majority of its board of directors persons who are officers or directors of any one bank. The Board has felt that this provision was enacted for the protection of investment companies, while section 32 was enacted for the protection of banks and their customers. The Board has found no indication that Congress intended that the provisions of the Investment Company Act would amend the restrictive provisions of section 32 applicable to the type of investment companies that come within its scope. Accordingly, the Board has felt that the enactment of the Investment Company Act of 1940 did not justify any change in its previous policies under section 32 of the Banking Act of 1933.

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"It is needless to say that the Board has given careful and full consideration to the arguments presented by representatives of various open end investment companies based on the provisions of the Investment Company Act of 1940 and otherwise, and only recently the Board carefully reviewed its position in the light of conferences with and briefs filed by representatives of such companies but did not feel that it should change its previous decision.

"I trust that the above will give you the information you desire but if there is any further information which you should wish please let us know."

Approved unanimously.

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

"Referring Treasury's December 14 wire advising you of amendment to Treasury Department's Regulations dated March 31, 1933, regarding issuance and redemption of Federal Reserve Bank notes, this amendment will permit you to pledge Government securities with Agent as security for Bank notes to be issued and to leave such securities with Agent for use as collateral for successive issues of such notes until entire stock has been issued to Bank, thus avoiding unnecessary handling of securities. If available, it may be more convenient to use Treasury bills purchased under repurchase option rather than System Open Market Account securities as collateral."

Approved unanimously.

Letter to Honorable S. O. Bland, House of Representatives, reading as follows:

"This is in response to your letter of December 2, 1942 asking advice as to existing laws or regulations with respect to charges imposed by banks on checking accounts.

"There is no Federal statute or regulation which prescribes or limits such charges. In many communities, the subject is covered by rules of the local clearing house associations. In other instances, the question is one of banking policy for determination by the individual bank. Aside from the foregoing, your attention may be directed to the fact that there is a provision in paragraph 1 of section 13 of the Federal Reserve Act to the effect that banks may make reasonable charges, to be determined and regulated by the Board of

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"Governors of the Federal Reserve System, but in no case to exceed 10¢ per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but that no such charges shall be made against the Federal Reserve Banks. This provision of law, as you will see, does not relate to service charges, as such, on checking accounts. Moreover, it specifies a maximum beyond which the banks cannot go, and the Board has not found it necessary to issue any regulation under this particular provision of law.

"If, however, there is any particular case which you feel should be given further attention, we shall be glad to have you bring it to the attention of the Board for investigation."

Approved unanimously.

Letter to Mr. F. W. Foote, President of the First National Bank, Hattiesburg, Mississippi, reading as follows:

"Under Secretary of the Treasury D. W. Bell has referred to the Board a copy of your letter of November 9 suggesting that if it becomes necessary for member banks to borrow from Federal Reserve Banks on Government securities such borrowings would be facilitated if arrangements could be made whereby securities located in New York City could be delivered to the Federal Reserve Bank of New York to be held for account of other Federal Reserve Banks, instead of requiring member banks to ship their bonds from New York in order to pledge them with the Federal Reserve Bank of their district.

"It is understood that the Federal Reserve Bank of New York has, on one or two occasions in the past, performed such a service at the request of other Federal Reserve Banks, and we understand that it is willing to receive and hold such securities for short periods whenever an emergency need arises for such service. The Federal Reserve Bank of New York does not feel that it could receive and continue to hold in safekeeping any considerable volume of securities belonging to member banks outside its district. Its vault facilities would not be adequate to render such service on any extensive scale."

Approved unanimously.

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Letter to Mr. Leon Henderson, Administrator of the Office of Price Administration, reading as follows:

"This refers to your letter of November 25, 1942, enclosing a proposed plan for clearance of ration checks. Representatives of your office subsequently submitted a revised plan for clearance to the Federal Reserve System Committee on Collections and discussed the matter with the Committee. The Committee suggested certain changes which are indicated on the copy of the revised plan enclosed herewith for your consideration.

"We are glad to have the Federal Reserve System cooperate with the Office of Price Administration in this matter and, if the plan as modified by the System's Committee on Collections is satisfactory to you and you desire to place it in operation, the Board will request the Federal Reserve Banks to perform the functions contemplated thereby. It is understood, of course, that the Office of Price Administration will agree to reimburse the Federal Reserve Banks for their expenses incident to the performance of such functions and fully protect them against any claims made against them in this connection other than as the result of their negligence.

"We will be glad at any time to have members of the Board's staff discuss with representatives of your office any problems that may arise in the clearance of ration checks."

Approved unanimously.

Memorandum dated December 14, 1942, from Mr. Smead, Chief of the Division of Bank Operations, referring to the approval by the Board on November 18, 1942, of a revised form of condition report of State member banks (Form F.R. 105), and submitting, with the recommendation that the Board approve, a draft of revised instructions and definitions covering Schedule A, Loans and Discounts, of the call report, the principal change in the report form having been made in that schedule. The memorandum stated that the proposed revised instructions had been prepared in consultation with representatives of the Board's staff, the office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

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and the Federal Reserve Banks of New York and Philadelphia, and that it was understood changes would be made in the instructions to be issued by the office of the Comptroller of the Currency covering reports of national banks and by the Federal Deposit Insurance Corporation covering reports of nonmember insured banks which would be consistent with the changes contained in the Board's revised instructions. The memorandum further stated that, if the proposed revised instructions were approved by the Board, they would be incorporated in Form F.R. 105a, "Instructions for the preparation of reports of condition by State bank members", and that a stock of the revised complete instructions would then be printed.

Approved unanimously.

Memorandum dated December 14, 1942, from Mr. Smead, Chief of the Division of Bank Operations, referring to the approval by the Board on November 30, 1942, of a revised form of report of earnings and dividends of State member banks, and submitting, with the recommendation that the Board approve, (1) a proposed letter to the Presidents of all the Federal Reserve Banks transmitting the report form (Form F.R. 107), detailed instructions for their preparation (Form F.R. 107a), suggested comments on the revised form to be sent to State member banks, and a memorandum containing suggestions for the guidance of the Reserve Banks in handling the reports, and (2) detailed instructions (Form F.R. 107a) for the guidance of State member banks in preparing the reports of earnings and dividends. The memorandum stated that the proposed revised instructions for the use of State member banks, which had been prepared

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in consultation with representatives of the Board's staff, the Comptroller's office, the Federal Deposit Insurance Corporation, and the Federal Reserve Banks of New York, Philadelphia, and Richmond, would replace those issued in December 1932, which had been out of date for some time, and that it was understood changes would be made in the instructions to be issued by the office of the Comptroller of the Currency covering reports of national banks and by the Federal Deposit Insurance Corporation covering reports of nonmember insured banks which would be consistent with the changes contained in the Board's revised instructions.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie

Secretary.

Approved:

W. L. Lewis

Chairman.