

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 21, 1942, at 11:00 a.m.

PRESENT: 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 19, 1942, were approved unanimously.

Memorandum dated December 14, 1942, from Mr. Paulger, Chief of the Division of Examinations, recommending that, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination, Charles Eaton be appointed as an Assistant Federal Reserve Examiner for a temporary indefinite period, with salary at the rate of \$2,200 per annum, and with official headquarters at New York, New York.

By unanimous vote, Mr. Charles Eaton was appointed an examiner for a temporary indefinite period to examine Federal Reserve Banks, member banks of the Federal Reserve System, and corporations operating under the provisions of Sections 25 and 25(a) of the Federal Reserve Act, for all purposes of the Federal Reserve

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Act and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, and was designated as an Assistant Federal Reserve Examiner, with official headquarters at New York, New York, and with salary at the rate of \$2,200 per annum, all effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Memorandum dated December 16, 1942, from Mr. Morrill, recommending that Mrs. Mary Seagle be appointed as a teletype operator in the telegraph section of the Secretary's Office, with salary at the rate of \$1,800 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 December 10, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Margaret W. Phillips be appointed as a clerk-stenographer in that Division, with salary at the rate of \$1,620 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.

Memoranda dated December 12, 1942, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the following increases in salaries of employees in that Division be

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approved, effective as of January 1, 1943:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Doris M. Engel	Clerk-stenographer	\$1,440	\$1,620
Mary Louise Hamm	Clerk-stenographer	1,440	1,560
Betty J. Strickler	Clerk-stenographer	1,440	1,560

Approved unanimously.

Memorandum dated December 18, 1942, from Mr. Szymczak, reading as follows:

"One of the problems considered by the Presidents' Conference Committee on the Retirement System, consisting of Presidents Davis, Sproul, and Fleming, Chairman, is the continued inability of the Retirement System to earn the anticipated four per cent per annum on its funds. The current average rate of earnings is about two and one-half per cent, and, after carefully considering the subject of investment policy, the Committee is of the opinion that while it may be possible for the Retirement System to earn as much as three per cent per annum on the average, there is no likelihood that it can obtain a larger average yield on its investments. Accordingly, the Committee is recommending that the interest base of the Retirement System be changed from four per cent to three per cent in conformity with the anticipated maximum average yield on its investments.

"If this is done, and it is understood that the Committee would recommend that it be done even though no other changes were made in the Retirement System, the existing reserves would be below the reserves required to place the Retirement System on a sound actuarial basis.

"The Actuary has estimated that as of February 28, 1943, the end of the current fiscal year of the Retirement System, the total payment necessary to place the Retirement System on a sound actuarial basis on an assumed three per cent interest return thereafter would be \$4,594,033, as regards reserves accumulated from contributions heretofore made by the Federal Reserve Banks and the Board. On the same basis an estimated additional payment of \$2,162,978 would be required to eliminate the actuarial deficiency in contributions by employees prior to March 1, 1943.

"Unless this payment is made by the Banks and the Board employees would have to make additional contributions for past service or be accorded benefits substantially less than anticipated for such service. Under the Civil Service Retirement System all benefits are guaranteed, and the Government

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"assumes the liability of meeting the cost thereof in excess of the employees' contributions. In this connection it may be stated that employee contributions are less and retirement allowances greater under the Civil Service Retirement System than under our System.

"In addition to these payments in respect to past service, if the interest base is changed from four per cent to three per cent, it would be necessary for the Federal Reserve Banks and the employees to increase their current contribution rates in order to provide for the employees the same benefits based on future service as are contemplated by the existing Rules and Regulations.

"The tentative recommendations of the Presidents' Conference Committee, including proposals for changes in benefits, are summarized in a memorandum submitted to the Board by Mr. Smead under date of December 11, 1942. If the proposed changes in benefits are adopted, it is estimated by the Actuary that a further contribution of about \$4,100,000 would be required to put the Retirement System on a sound actuarial basis.

"The estimated amount payable by each Federal Reserve Bank and by the Board as of February 28, 1943, for each of the three above-mentioned purposes are as follows:

Federal Reserve Bank	To place reserves accumulated from F. R. Bank & Board contributions on a 3% interest base	To eliminate deficiency in employees contributions prior to Mar. 1, 1943, due to adoption of a 3% interest base	To bring reserves of the Retirement System up to the level that would be required by proposed new scale of benefits	Total
Boston	\$279,461	\$112,691	\$238,578	\$630,730
New York	1,122,130	526,036	1,005,247	2,653,413
Philadelphia	312,542	132,158	270,852	715,552
Cleveland	381,490	176,066	339,603	897,159
Richmond	259,717	113,124	227,440	600,281
Atlanta	197,830	110,312	187,742	495,884
Chicago	592,793	279,673	531,451	1,403,917
St. Louis	248,913	113,989	221,067	583,969
Minneapolis	151,741	74,190	137,282	363,213
Kansas City	276,464	113,340	237,663	627,467
Dallas	208,523	106,419	191,817	506,759
San Francisco	385,241	200,724	356,867	942,832
Board	177,188	104,256	172,029	453,473
Total	4,594,033	2,162,978	4,117,638	10,874,649

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"Inasmuch as payment of the \$4,594,033 required to place reserves accumulated from Federal Reserve Bank and Board contributions on a three per cent base should be made regardless of whether any other changes are made in the Retirement System, and also inasmuch as each Federal Reserve Bank will have earnings remaining after dividends at the close of this year sufficient to cover its payment for this purpose, it is recommended that Mr. Smead be authorized to inform Mr. Rounds, Chairman of the Retirement Committee, that the Board will interpose no objection to the payment of such amounts by the various Federal Reserve Banks to the Retirement System before closing of books on December 31, and that it will also interpose no objection to the payment thereafter prior to February 28, 1943, of the amount required to eliminate the deficiency in employee contributions made prior to March 1, 1943. If this authorization is given by the Board, Mr. Rounds, Chairman of the Retirement Committee and Mr. Fleming, Chairman of the Presidents' Conference Committee propose to write letters to the Federal Reserve Banks suggesting that they pay their portions of the amount required to place existing reserves, whether arising from their own contributions or from employee contributions on a three per cent base.

"If the Board authorizes payments by the Banks, it should, of course, also authorize payment by the Board to the Retirement System of \$177,188 before the end of the present calendar year and of the additional \$104,256 thereafter prior to March 1, 1943.

"No recommendation is made in regard to payments for the purpose of liberalizing the benefits of the Retirement System, pending submission by the Presidents' Conference Committee of definite and formal proposals as to the benefits that should be provided."

Approved unanimously.

Memorandum dated December 16, 1942, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that, in order that the Board's leave regulations might conform to the bill which recently passed Congress extending the amount of annual leave that might be accumulated, section 1(a) of Part I of these regulations be amended by the addition of the following proviso, subject to the signing of the bill by the President:

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"Provided, That during the national emergency declared by the President on September 8, 1939, unused annual leave may be accumulated until it totals not exceeding 90 days; Provided further, That, when the unused leave accumulated equals or exceeds 60 days in the aggregate, not more than 15 days of unused leave may be further accumulated in any one calendar year."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Dr.

Edmund E. Day, President of Cornell University, Ithaca, New York, reading as follows:

"This will acknowledge your letter of December 12, 1942, in which you convey the unwelcome news that you would not be available for another term as a Class C Director of the Federal Reserve Bank of New York, owing to the excessive demands upon your time and attention in the field of education. While you telephoned me recently to this same effect, your letter confirms your earlier inclination; but I appreciate fully the necessity which prompts your decision.

"All the Members of the Board join in expressing to you their regret at the imminent termination of your official relationship with the Federal Reserve System and their appreciation for the services you have rendered as a Class C Director.

"The Board hopes that your interest in the welfare of the System will continue and that, if at any time you have any comments or suggestions with regard to Federal Reserve matters, you will not hesitate to bring them to the attention of the Board of Directors of the Federal Reserve Bank of New York or the Board of Governors. Also, whenever you have an occasion to visit Washington, I trust you will find it convenient to drop in at the Board's offices for a visit."

Approved unanimously.

Telegram to Mr. Stroud, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Re your wire Smead December 18. Informal opinion of representative General Accounting Office that assignment of the original contract and notice thereof will result in all payments due on the modified or enlarged contract being made to institution holding the assignment. No formal opinion on this question

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"in absence of submission of all pertinent facts."

Approved unanimously.

Memorandum dated December 21, 1942, from Mr. Foulk, Fiscal Agent, recommending that an assessment of thirty-six hundredths of one per cent (.0036) of the total paid-in capital and surplus (Section 7 and Section 13b) of the Federal Reserve Banks as of the close of business December 31, 1942, be levied to cover the general expenses of the Board for the six months' period beginning January 1, 1943, and that the Federal Reserve Banks be instructed to pay the assessment in two equal instalments on January 2 and March 1, 1943.

The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1943, it is necessary that a fund equal to thirty-six hundredths of one per cent (.0036) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to thirty-six hundredths of one per cent (.0036) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such Bank at the close of business December 31, 1942.

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"(2) Such assessment shall be paid by each Federal Reserve Bank in two equal instalments on January 2, 1943, and March 1, 1943, respectively.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Interdistrict Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that Bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Thereupon the meeting adjourned.

Robert Morrie  
Secretary.

Approved:

1 / [Signature]  
Vice Chairman.