

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, December 24, 1942, at 11:30 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 hereinafter 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 23, 1942, were approved unanimously.

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

"This is to advise you that the Commissioner of Internal Revenue has given formal approval to a procedure covering salary adjustments of employees of the Board and Federal Reserve Banks coming under his jurisdiction which is identical to the procedure adopted by the National War Labor Board in its General Order No. 19 heretofore communicated to you.

"Procedure approved by Commissioner does not modify suggestion in yesterday's telegram that certificates be addressed to the Joint Committee on Salaries and Wages and that it is not necessary for a Reserve Bank to undertake to distinguish between adjustments coming within the scope of the War Labor Board and those coming within the scope of the Commissioner of Internal Revenue."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

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"In accordance with the request contained in your letter of December 18, 1942, to Governor Szymczak, the Board approves payment of salary to Mr. Martin Morrison, Assistant Cashier, at the rate of \$5,500 per annum effective January 1, 1943, for the period ending April 30, 1943, if the salary is fixed by your directors at that rate."

Approved unanimously.

Letter to Mr. Brainard, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"As requested in your letter of December 17, 1942, the Board of Governors approves the payment of a salary to Miss Anne J. Erste, Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, at the rate of \$1,680 per annum, effective January 1, 1943."

Approved unanimously.

Letter to Mr. Lassiter, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the recommendations contained in Mr. Walden's letter of December 19, 1942, the Board of Governors approves the payment of salaries to Mr. John H. Zirckel, Federal Reserve Agent's Representative at the Baltimore Branch at the rate of \$1,980 per annum, and Mr. T. Wesley Bagby, Federal Reserve Agent's Representative at the Charlotte Branch at the rate of \$1,920 per annum, effective January 1, 1943."

Approved unanimously.

Letter to Mr. Holden, Deputy Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"As requested in your letter of December 17, 1942, the Board of Governors approves the payment of salary at the rate of \$12,000 per annum to Mr. C. E. Earhart, Vice President, and at the rate of \$8,500 per annum to Mr. H. N. Mangels, Cashier, effective January 1, 1943, for the period ending April 30, 1943."

Approved unanimously.

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Memorandum dated December 22, 1942, from Mr. Smead, Chief of the Division of Bank Operations, submitting the requests of the Federal Reserve Banks for authority to pay the regular semiannual dividend at the end of 1942, to make additions to reserves for estimated losses on industrial advances, to set up special reserves for depreciation and making charge-offs on bank premises, and to make other year-end adjustments, including transfers from surpluses to reserves for contingencies. The memorandum stated that current earnings of the Reserve Banks for 1942 would be approximately \$51,700,000 and current expenses about \$38,000,000, leaving current net earnings of about \$13,700,000; that additions to current net earnings, including profits of \$3,300,000 on sales of Government securities, would amount to \$3,600,000; that deductions from current net earnings, including \$200,000 losses and proposed reserves for losses on industrial advances and commitments, and \$700,000 for charge-offs and special reserves for depreciation on bank premises, would amount to \$900,000, exclusive of the proposed \$4,400,000 adjustment to place Retirement System reserves accumulated from Federal Reserve Bank contributions on a 3 per cent interest basis; that net earnings for the year were estimated at \$16,400,000, also exclusive of the proposed Retirement System adjustment; that payments to the Secretary of the Treasury by nine Federal Reserve Banks under the provisions of section 13b were estimated at about \$250,000; that dividends for the year would be \$8,600,000; and that net earnings available for transfer to surplus (section 7) would amount to about \$7,500,000, or, if the proposed

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Retirement System adjustment were approved, to \$3,000,000.

Recommendations contained in the memorandum with respect to the requests of the Federal Reserve Banks were approved unanimously as follows, with the understanding that the telegrams to the Banks would state that the procedure set forth in the Board's telegram of December 29, 1936, should be followed as to any net earnings or net losses for the year on industrial advances and commitments:

1. Each Federal Reserve Bank was authorized to pay the regular semiannual dividend at the end of the year, estimated to amount to a total of \$4,359,000.
2. The Federal Reserve Bank of New York was authorized to set aside a special reserve out of current net earnings of \$483,000 on fixed machinery and equipment to cover the last third of the total cost of air conditioning the Bank building.
3. The Federal Reserve Bank of Richmond was authorized to set aside a special reserve of \$25,000 out of current net earnings as an addition to the present \$225,000 "Special Reserve for Alterations and Improvements", which was set up in 1940 to cover the estimated cost of air conditioning the Head Office building and extending all floors across the present court space.
4. The following Federal Reserve Banks were authorized to set aside reserves for estimated losses on industrial advances and commitments as shown. These reserves were in addition to the reallocation by the Federal Reserve Bank of St. Louis to a different advance of an existing reserve for estimated losses of \$5,000, and charge-offs on industrial loans direct to profit and loss by the Federal Reserve Banks of Minneapolis and San Francisco in the respective amounts of \$1,003.74 and \$2,818.08, which reallocation and charge-offs were also approved.

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|---------------|---------------|
| New York | \$ 11,000 |
| Philadelphia | 100,000 |
| Atlanta | 10,000 |
| Chicago | 10,000 |
| Minneapolis | 11,000 |
| San Francisco | <u>50,000</u> |
| Total | \$192,000 |

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5. The Federal Reserve Bank of Atlanta was authorized to make the following charge-offs on land on which the banking houses at Atlanta, Birmingham, Jacksonville, and Nashville are located:

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| Head Office building | \$100,000 |
| Birmingham Branch building | 70,000 |
| Jacksonville Branch building | 20,000 |
| Nashville Branch building | 20,000 |

6. The following Federal Reserve Banks were authorized to transfer amounts from surplus (section 7) to reserves for contingencies equal to amounts transferred to surplus section 7 at the end of the year, or, in the case of St. Louis, an amount equal to net profits on sales of Government securities:

| | |
|-------------|-----------|
| Richmond | \$345,000 |
| Atlanta | 86,000 |
| St. Louis | 153,000 |
| Kansas City | 294,000 |

Letter to the Presidents of all the Federal Reserve Banks transmitting forms and instructions in connection with the next call for condition reports of State member banks and their affiliates.

Approved unanimously.

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

"Have been advised by Office of United States Treasurer that Secret Service has received number of inquiries as to whether new Bank notes now being paid out are counterfeits. In order that banks in your district may be informed on this matter you may wish to include in letters being mailed to them a copy of press statement on this subject released by the Board on December 12 and wired you on that date."

Approved unanimously.

Memorandum dated December 22, 1942, addressed to Mr. Ransom by Mr. Vest, Assistant General Attorney, reading as follows:

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"Mr. Maggs, of the Department of Justice, called me today to say that Mr. Oscar Cox had talked at some length with the Attorney General regarding our question (relating to the taxation of the Board's building) and that the Attorney General had concluded that they should not give the Board an opinion on the matter, both on the basis of precedent in like cases and because such an opinion would not be effective. He said, however, that the Attorney General had stated that there was no objection to the Board's noting in its records informally that the Department of Justice is in agreement with our position, and also the Department of Justice is willing to cooperate in litigation on the subject.

"Mr. Cox spoke to Mr. Wyatt and myself in the dining room today, and he also said that the Attorney General felt that no opinion should be given but that they would cooperate in litigation.

"Since the Attorney General himself has considered the matter and does not wish to give the Board an opinion, I suppose that there is nothing more that can be done toward getting such an opinion at this time."

Noted.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald Ransom
Vice Chairman.