

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 14, 1943, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Smead, Chief of the Division of
Bank Operations
Mr. Vest, Assistant General Attorney

Mr. Szymczak stated that in accordance with the action taken at the meeting of the Board on August 25, 1943, Mr. Morrill had discussed over the telephone with Mr. Williams, President of the Federal Reserve Bank of Philadelphia, the proposal of the Bank to spend not to exceed \$10 for a Christmas present for each of the Bank's 144 employees in the military services, that at Mr. Williams' suggestion Mr. Sienkiewicz, Secretary of the Presidents' Conference, had undertaken to ascertain the attitude of the Presidents of the other Federal Reserve Banks, and that under date of September 8, 1943, Mr. Sienkiewicz addressed a letter to the Board in which it was stated that 11 of the Reserve Banks were in favor of, or had no objection to, the proposed expenditure and that 4 of the Banks were making preparations to send some remembrance, either on the Bank's behalf or through the Reserve Bank Club, to their employees in the services. The letter also

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stated that President Day of the Federal Reserve Bank of San Francisco had taken the position that he did not favor, and would vote against, the expenditure of Federal Reserve Bank funds for this purpose and that the matter could properly be taken care of through the activities of the Reserve Bank Club.

There was a further discussion of the matter, particular consideration being given to the question whether, because of the public character of the Federal Reserve Banks, such an expenditure would be a proper one, and in this connection reference was made to expenditures being made by the Federal Reserve Banks for other purposes looking toward the welfare of their employees.

The members of the Board were in agreement with the suggestion that, while the funds of a Federal Reserve Bank should not be spent for the benefit of a particular individual, the purchase of Christmas presents for employees in the military services, because of the special and unusual circumstances involved, could not be regarded as a precedent in other cases of proposed expenditures for the benefit of Federal Reserve Bank employees and that the Board would be justified in approving the expenditure proposed by the Philadelphia Bank and in advising the other Federal Reserve Banks accordingly.

Thereupon, Mr. McKee moved that the Federal Reserve Bank of Philadelphia be advised by wire that the Board approves the proposed expenditure.

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This motion was put by the chair and carried unanimously, and in accordance therewith approval was given to the following wire to Mr. Williams, President of the Federal Reserve Bank of Philadelphia, with the understanding that a copy thereof would be sent to the other Federal Reserve Banks for their information:

"Refer Drinnen's letter August 20, subsequent telephone conversations, and Sienkiewicz' letter September 8 regarding Christmas presents for employees your Bank in military services. While Board ordinarily would not be disposed to regard an expenditure of this kind by a Federal Reserve Bank as a proper one, realizing the special and unusual circumstances involved, the Board approves a contribution by your Bank, either directly or through your Reserve Club, of not to exceed \$10 for a Christmas present for each employee of your Bank in the military services. Copy of this wire being sent to other Federal Reserve Banks."

In accordance with the decision reached at the meeting of the Board on July 27, 1943, the letter dated July 6, 1943, from the attorneys for The Chase Bank, an Edge Act corporation, with respect to the proposed purchase by that bank of stock of Inversiones Latinas, S.A., had been sent to Mr. Sproul, President of the Federal Reserve Bank of New York, who addressed a letter to the Board under date of August 16, 1943, expressing the view that so long as the undertaking was in accord with the foreign policies of our Government and the Mexican Government, so long as it would have the continued close attention of the chief policy-making officers of The Chase Bank, and so long as it was pursued on an experimental basis with relatively small amounts at risk in the beginning, it was an appropriate venture for

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The Chase Bank and should be helpful to the further development of our foreign banking, our foreign trade, and our relations with Mexico. Under date of September 7 there was received from Mr. Berle, Assistant Secretary of State, a letter enclosing a copy of a report prepared by the American Embassy in Mexico City with respect to the proposed investment by The Chase Bank. The letter called specific attention to the fact that the recommendation of the Embassy that any approvals needed from the Treasury Department and the Federal Reserve System be given was merely the point of view of the Embassy officials who had studied the matter.

Following the receipt of Mr. Sproul's letter, the position that the Board should take on the matter was the subject of informal discussions, and a draft of letter to Mr. Sproul had been prepared for consideration by the Board.

The matter was reviewed at this meeting on the basis of the opinions expressed by some of the members of the Board that the Edge Act was not an adequate expression of policy with respect to the organization and operation of foreign banking corporations and therefore should be repealed, and that in the present circumstances the Board would not be prepared to charter additional corporations under that Act or to encourage the expansion of the operations of The Chase Bank, the only existing Edge Act corporation.

Mr. McKee suggested that, if the Board took the position that it would not favor the proposed purchase by The Chase Bank

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and should carry into effect the suggestion that had been made that Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, be amended expressly to require the advance approval by the Board of such purchases, it would be his suggestion that the amendment be made effective two or three months in the future in order that it would not apply directly to this case, so that if The Chase Bank should decide to make the investment regardless of the Board's position in the matter it would be at liberty to do so under the authority given by the regulation in its present form.

Mr. McKee also suggested that the question what should be done by Congress with respect to the Edge Act should be referred to in the next annual report of the Board so that the whole question of legislative policy on this subject could be reviewed.

At the conclusion of the discussion, Mr. McKee moved that the Board adopt the following amendment to Regulation K, Banking Corporations Authorized to Do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act:

"AMENDMENT TO SECTION IX OF REGULATION K

"Effective November 1, 1943, section IX of Regulation K is amended to read as follows:

'SECTION IX. INVESTMENTS IN THE STOCK
OF OTHER CORPORATIONS

'With the consent of the Board of Governors of the Federal Reserve System first obtained, a Corporation may purchase and hold stock, or other certificates of ownership, of any other corporation organized--

'(a) Under the provisions of section
25(a) of the Federal Reserve Act;

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"(b) Under the laws of any foreign country or a colony or dependency thereof;

'(c) Under the laws of any State, dependency, or insular possession of the United States; Provided, first, That such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as in the judgment of the Board of Governors of the Federal Reserve System may be incidental to its international or foreign business.

'Except with the approval of the Board of Governors of the Federal Reserve System first obtained, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

'No Corporation shall purchase, own, or hold any stock or certificates of ownership in any other corporation organized under the terms of section 25(a) of the Federal Reserve Act or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation.'

Mr. McKee's motion was put by the chair and carried unanimously, and unanimous approval was also given to the following letter to Mr. Sproul, President of the Federal Reserve Bank of New York:

"Your letter of August 16 in regard to the proposal of The Chase Bank to purchase stock of the Inversiones Latinas, S. A., has been brought to the attention of the Board of Governors. The Board has asked me to express its appreciation of the care with which you have reviewed this matter.

"In view of the provisions of section 25(a) of the Federal Reserve Act and of section IX of the Board's Regulation K, it would have been permissible for The Chase Bank to consummate the proposed purchase of stock without submission of the matter to the Board. However, The Chase

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"Bank has elected to consult with the Board of Governors with respect to this matter and, as indicated in your letter, it appears that The Chase Bank would like to have from the Board a statement that it has no objection to the proposed purchase. After giving consideration to the matter in the light of all of the circumstances involved and on the basis of the information now before it, the Board does not favor the proposed purchase.

"The Board has reviewed its policy as expressed in section IX of its Regulation K with regard to investments in stock and is amending its regulation, effective November 1, 1943, so as to make it necessary that the Board's consent be obtained specifically in each case before such an investment is made. A copy of section IX of the regulation as amended is enclosed.

"It will be appreciated if you will advise The Chase Bank as indicated above."

At this point Messrs. Smead and Vest withdrew from 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 13, 1943, were approved unanimously.

Letter to the board of directors of the "Farmers State Bank", Eustis, Nebraska, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved unanimously, for transmission through the Federal Reserve Bank of Kansas City.

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Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge receipt of your letter of August 31 and its enclosures, regarding your Pay Roll Plan for the purchase of War Savings Bonds. Your letter has been read with much interest and the material enclosed therein indicates that the matter has received a great deal of attention.

"The difficulties arising from the heavy turnover in personnel mentioned in Mr. Clerk's letter of June 18 and your letter of July 19 to the Board, together with those growing out of the Current Tax Payment Act, increased living costs and the possibility of redemptions in the event Bonds are not 'well sold', are fully appreciated. On the other hand, there is room for a difference of opinion on the two points which you make; namely, (1) that participations should not be accepted under the Plan in 'token amounts' and (2) that the use of special authorizations for the purchase of Bonds under the Pay Roll Plan during the periodic War Loan Drives is not worth while.

"We think it is desirable to encourage all employees to participate in the Pay Roll Plan, even though some may not be in a position to do so in a substantial way. When the Board's Plan was inaugurated in 1941, some of the lower salaried employees indicated that they would purchase War Savings Stamps, but it turned out that many who intended to do so found it inconvenient for one reason or another to make purchases with any regularity. Having established the very low minimum for semi-monthly deductions of \$0.75 in the Pay Roll Plan, we concluded that it was much preferable to encourage employees to come in under the Plan even for this small amount rather than not to come in at all. Employees quickly become accustomed to regular deductions, and while these small deductions are not an important factor statistically, the participation of all employees contributes to improved morale in the organization. The authorization of a deduction, however small, enables an employee to feel that he is doing something in the War Savings effort. Our experience has been that employees who never had the saving habit started in a small way to buy War Savings Bonds and now not only own some Bonds, but also have acquired a sense of thrift.

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"Employees have not been urged to set aside more of their salaries for the purchase of War Bonds than their financial status would permit or to purchase Bonds where there was any indication that they would have to redeem them at the expiration of the waiting period. In fact, we have been careful to make clear to all employees that the goals established by the Treasury contemplate that some would be able to set aside a much higher percentage of their salaries than others for the purchase of War Bonds and that the question of amount to be deducted for this purpose was solely for their determination.

"With regard to the second point, there is, of course, some extra work entailed for the Pay Roll Department in accepting special authorizations under the Pay Roll Plan during the periodic War Loan Drives. But we have felt that a reasonable amount of additional work was justified on purely psychological grounds. Many people, for example, find it easy to make purchases on charge accounts when they would think twice before laying cash on the counter. Similarly, some employees will sign an authorization for pay roll deductions for the purchase of an extra War Savings Bond when they would not go to a teller's window and hand over the money. Without any desire to over-emphasize the importance of a good statistical showing, we think it is desirable to have purchases made out of salary payments reflected in sales under the Pay Roll Plan. The showing made by the several Reserve Banks in their monthly reports to the Treasury does not, as you point out, take into account sales to employees for cash. Since it seemed desirable to draw a line of demarcation some where, we have followed the rule that sales must be made through deductions from employees' salaries if they are to be included in reports to the Treasury on the operation of the Pay Roll Plan. It is obvious that if an employee receives his pay envelope or salary check at one teller's window and then goes to another window and buys a War Savings Bond the effect is the same in substance. However, the fact remains that purchases made in this manner would not be made by salary deductions and, therefore, the proceeds of the sale may not properly be included in reports of sales under the Pay Roll Plan. During the current Drive, the Treasury is emphasizing cash sales, and it may be that regardless of the showing made under your Bank's Pay Roll Plan, you will prefer to sell as many

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"Bonds as possible for cash. Nevertheless, it should be borne in mind that over a period of time some Reserve Banks will appear to have done a better job than others simply because of differences in the procedure followed. For this reason alone it seemed desirable to bring this matter to your attention, although, as you know, our principal concern is that the System as a whole make a creditable showing."

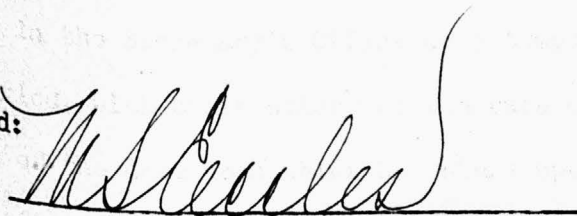
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.