

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 30, 1943, at 10:30 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. Thurston, Special Assistant to the  
Chairman  
Mr. Smead, Chief of the Division of  
Bank Operations  
Mr. Dreibelbis, General Attorney  
Mr. Leonard, Director of the Division  
of Personnel Administration  
Mr. Vest, Assistant General Attorney  
Mr. Van Fossen, Assistant Chief of the  
Division of Bank Operations  
Mr. Wyatt, General Counsel

Mr. Morrill stated that this meeting had been called to consider the action to be taken on the retirement plan proposed for the Board's employees, as well as to take formal action upon the amendments to the rules and regulations of the Federal Reserve Retirement System which were adopted by the board of trustees on October 15, 1943. He also stated that advice had been received from Mr. Rounds, Chairman of the Retirement Committee of the Retirement System, that all of the Federal Reserve Banks had approved the additional payments necessary for the increased retirement benefits provided by the revised rules and regulations of the Retirement System as approved by the board of trustees

10/30/43

-2-

at its meeting on October 15, 1943. Mr. Rounds had previously advised that it was proposed to put the revised rules and regulations into operation on November 1, 1943, if possible.

Mr. McKee inquired whether it was felt it was not possible to work out a single retirement plan for the employees of the Board and the Federal Reserve Banks. In response to this inquiry, it was stated that this possibility had been under consideration from the beginning but that the Federal Reserve Banks were not willing to adopt a plan providing for substantially the benefits of the Civil Service retirement system, that the Board had taken the position that it was under the necessity of providing substantially these benefits for its employees, that the employees' committee had been advised that the Board would do so, and that unless the Board were to retreat from that position it would not be possible to provide for a single plan.

Mr. Szymczak stated that at the meeting of the board of trustees on October 15, 1943, he moved that a committee be appointed to consider the possibility of adopting a single plan but that that motion was voted down.

Mr. McKee then inquired how many of the Board's existing employees (excluding 49 employees who were members of the Civil Service retirement system and would continue as such) could be expected to elect to become members of the Board's plan rather than continue as they were under the Federal Reserve Bank plan, and it was stated that,

10/30/43

-3-

while it was thought that a substantial majority would so elect, that could not be determined until the matter was presented to the employees. It was suggested, however, that a substantial number of the younger employees who were not particularly interested in retirement might elect to continue in the Federal Reserve Bank plan because of the smaller rates of contribution required of the younger employees under the existing Federal Reserve Bank plan than under either the Civil Service or the new Federal Reserve Bank plan.

In a discussion of the cost of the proposed plan for the Board's employees, the fact was referred to that, if an individual were employed by the Board after a substantial period of Governmental service, the Board would have to make the necessary payments to the Retirement System to cover the employer's liability for prior Government service which, in a case of long prior service and a higher salary, might amount to many thousand dollars. It was suggested that this might operate as a deterrent to the employment of individuals with prior Government service and that, if possible, some way should be found to avoid this condition.

At the conclusion of the discussion, the staff was requested to give consideration to the following points, with the understanding that the matter would be taken up by the Board for final action at a meeting of the Board to be held on Tuesday, November 2, 1943:

10/30/43

-4-

1. Whether the approval of the proposed plan by the Board could be made subject to acceptance, before the effective date, of at least two-thirds of the employees of the Board (other than those who are members of the Civil Service retirement system).
2. Whether, in the case of future employees who were members of the Civil Service retirement system, provision could be made to allow them to remain as members of that system, as has been the case heretofore.

Thereupon the following letter to Mrs. Valerie R. Frank, Secretary of the Retirement System of the Federal Reserve Banks, which had been circulated among the Board members, was presented:

"This will acknowledge receipt of your two letters of October 16, 1943, and of a third undated letter received in the same envelope. In these letters you advise that the Board of Trustees of the Retirement System at its meetings on October 15, 1943, approved or adopted (a) amendments to the rules and regulations of the Retirement System of the Federal Reserve Banks to make effective the recommendations of the Presidents' Conference with reference to changes in the organization and benefits of the Retirement System in the form previously submitted to the Board with Mr. Rounds' letters of September 27 and October 5, 1943 with the two minor changes stated, (b) amendments to the rules and regulations to provide for a separate plan for the employees of the Board of Governors in the form transmitted with Mr. Rounds' letter of September 27, 1943, and (c) amendments to the by-laws made in connection with the changes in the rules and regulations. With these letters you enclosed copies of the amendments to the rules and regulations and the amendments to the by-laws in the form in which they were approved by the Board of Trustees. It is noted that the approval of the Board of Trustees of the amendments to make effective the recommendations for changes in benefits of the Retirement System will become effective only upon the acceptance by all of the Federal Reserve Banks of the liability for payment of the additional contributions needed to support the revised benefits.

10/30/43

-5-

"Although your letter with reference to the amendments to the rules to provide for a separate plan for the employees of the Board of Governors states that these amendments were in the form transmitted with Mr. Rounds' letter of September 27, 1943, the copies of these amendments which were enclosed with your letter include also the minor changes mentioned in Mr. Rounds' letter of October 5, 1943, and it is understood that as adopted these amendments included these minor changes. In this connection also it is understood that the parenthetical phrase to be inserted in the last sentence of subdivision (1) of section 7 of the rules and regulations will be placed immediately following the words 'employing banks'.

"As you have been previously advised, the Board of Governors of the Federal Reserve System has approved the amendments to the rules and regulations of the Retirement System embodying the changes in the rules and regulations to make effective the recommendations of the Presidents' Conference with reference to changes in the organization and management and in the benefits of the Retirement System, all in the form submitted with your letter of October 16, 1943, on this subject.

"The Board of Governors of the Federal Reserve System also approves the additional amendments to sections 1, 7, 10 and 11 of the rules and regulations of the Retirement System to provide for a separate plan for the employees of the Board of Governors, in the form enclosed with your letter of October 16, 1943, on this subject."

Upon motion by Mr. Szymczak, the above letter was approved unanimously, together with the following letter to the Presidents of all the Federal Reserve Banks:

"In its letter of June 24, 1937 (S-7) the Board authorized the Federal Reserve Banks, in connection with the separation of employees from service, in certain cases to make special or supplemental payments to the employees or to the Retirement System for their benefit, and also rescinded similar authority which had been granted by the Board in certain earlier letters.

"The Board of Trustees of the Retirement System of the Federal Reserve Banks and the Board of Governors of

10/30/43

-6-

"the Federal Reserve System have approved the amendments to the rules and regulations of the Retirement System to make effective the changes in benefits necessary to carry out the recommendations of the Presidents' Conference, and these amendments will become effective upon the acceptance by all of the Federal Reserve Banks of the liability for payment of the additional contributions needed to support the revised benefits.

"After consideration of this matter in the light of the revised benefits which will be provided by the changes in the rules and regulations, the Board rescinds the authority to make supplemental payments or special contributions to employees or to the Retirement System, upon separation from service, which was granted by the Board's letter of June 24, 1937, effective on the date on which the amendments to the rules and regulations above mentioned become effective. In this connection it is understood that the Presidents' Conference may submit recommendations at a later date for the purpose of obtaining the Board's authorization of a new plan for making supplemental payments in exceptional cases of separation of employees from the service at the instance of a Federal Reserve Bank."

At this point Messrs. Thurston, Smead, Dreibelbis, Leonard, Vest, Van Fossen, and Wyatt 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 October 29, 1943, were approved unanimously.

Telegram to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Retel October 29. Board approves appointment of Hugh J. Helmer as an examiner for the Federal Reserve

10/30/43

-7-

"Bank of Chicago. Please advise us of effective date and salary rate and also furnish current information with respect to indebtedness and outside business connections (Item 5, Loose-Leaf Service #9181)."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letters of October 4 and October 23, 1943, the Board of Governors approves the payment of a salary to Mr. John J. Endres, Auditor, at the rate of \$9,000 per annum for the period from October 1, 1943 to March 31, 1944, the rate as fixed by your directors."

Approved unanimously.

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

"Reference is made to your letter of October 22, 1943, regarding the changes effected in the official personnel of the Peoples Bank, Lakewood Village, California.

"The bank was last examined by your examiners as of the close of business April 17, 1943, and it is assumed that another examination will not be scheduled for a few months at least. In view of the changes made and the possible bearing such changes may have upon condition of membership numbered 4 to which the member bank is subject, it is suggested that the next examination not be made until after the next annual stockholders' meeting and election of directors. It is suggested also that before the next examination is definitely scheduled you advise the Board of the date you have in mind in order that consideration may be given by the Reserve Bank and the Board to any developments in the interim and to any special investigations which may be considered desirable at that time."

Approved unanimously.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

10/30/43

-8-

"This refers to the application of the Danville Loan and Savings Bank, Danville, Virginia, for permission to exercise fiduciary powers.

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers now or hereafter authorized under its charter and the laws of the State of Virginia. The Board's approval is given subject to the bank's obtaining the necessary amendment to its charter within a reasonable time authorizing it to exercise trust powers in accordance with the applicable provisions of State law, and subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
2. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Danville Loan and Savings Bank, Danville, Virginia, of the Board's action and to obtain an appropriate resolution of the board of



10/30/43

-9-

"directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

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

"This is in reply to your letter of October 15, 1943, your Inquiry No. 38 regarding Regulation T, saying that a nonmember bank which has filed an agreement with the Board on Form F.R. T-1 pursuant to section 8(a) of the Securities Exchange Act of 1934, has inquired whether the amount which it may lend to any one person is subject to any limitation because of such agreement if the loan is not for the purpose of purchasing or carrying or trading in securities. You say that in your opinion the question should be answered in the negative. The Board agrees.

"As you point out, the Board previously declined to answer a similar question (F.R. Bulletin for October 1934, p. 688, ruling number 10) on the ground that it did not wish to express an opinion which required an interpretation of a criminal statute because its opinion would not afford protection from criminal prosecution. However, you point out that the Securities Exchange Act has since been amended so as to provide in section 23(a) that no provision imposing liability shall apply to any act done in conformity with any rule or regulation of the Board. In the circumstances, the reason given in the ruling referred to above is no longer applicable, a conclusion which has already been recognized in the Board's letter of December 20, 1937, which was enclosed with S-60 (F.R.L.L. #8003).

"The agreement in Form F.R. T-1 provides that the nonmember bank will comply with all the provisions referred to in section 8(a)(2) of the Securities Exchange Act which are applicable to loans by member banks to finance transactions in securities. In its ruling number 10 referred to above, the Board, although not answering the question, suggested that banks in those circumstances should consider the possibility that these provisions included the following: Section 11(m) of the Federal Reserve Act, the seventh paragraph of section 19 of the Federal Reserve Act, the fourth paragraph after paragraph 'eighth' of section 4 of the

10/30/43

-10-

"Federal Reserve Act, and those provisions of the Securities Exchange Act which are contained in the Appendix to Regulation T.

"The relevant provisions of the Securities Exchange Act are sections 7(d) and 8(a)(2), both of which refer to loans for the purpose of financing transactions in securities, and therefore they do not affect the answer stated in the first paragraph of this letter. The other provisions clearly have no bearing on the question, with the possible exception of section 11(m), which provides that loans secured by stock or bond collateral shall not be made by a member bank to any one borrower in excess of 10 per cent of the capital and surplus of the bank. This provision does not impose any limitation upon the loan, regardless of its purpose, if it is not secured by stock or bond collateral, and even though it is so secured, the provision could have a bearing on the present question only if the credit were to be used 'to finance transactions in securities' (quoting from both section 8(a) and the agreement). Since the inquiry relates to loans which are not for this purpose, this provision also does not affect the answer stated in the first paragraph of this letter."

Approved unanimously.

Letter to Mr. Pitman, Vice President of the Federal Reserve Bank of Boston, reading as follows:

"There is enclosed a memorandum received from the War Department dated October 27, 1943, signed by Colonel Paul Cleveland, commenting upon the suggested formula for use under V T loan agreements as set forth in the memorandum of your counsel which was enclosed with your letter of October 1, 1943. We have not as yet received any comments from the other agencies."

Approved unanimously.

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

10/30/43

-11-

"This will acknowledge receipt of your letter of October 25, 1943, and its enclosures, with respect to action by your Bank in connection with adjusting a loss, covered by the Government Losses in Shipment Act, of \$407,000 of Federal Reserve notes included in mail shipments made by your Bank in April 1942 for account of the Treasury Department to the Virgin Islands National Bank, Christiansted Branch, Christiansted, St. Croix Island, Virgin Islands, and to the National City Bank of New York, San Juan Branch, San Juan, Puerto Rico, which shipments are understood to have been lost by the sinking of the steamships San Jacinto and Isabella of the New York and Puerto Rico Steamship Company.

"You state that the procedure adopted in this matter should have the approval of the Board and that you will discuss it with representatives of the Board after some further study.

"It will be appreciated if you will keep the Board currently advised of developments in this case and after your studies are completed submit the matter to the Board with your recommendation as to the action to be taken."

Approved unanimously.

Letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"Referring to your letter of October 25, concerning the advisability of paying out 1928 Series Federal Reserve notes of your bank in the \$500 denomination, you are advised that there has been no change in the situation in connection with the 1928 Series notes. It is suggested, therefore, as we wired Mr. Shepherd in July of last year, that no new notes of that series be placed in circulation until you hear from the Board.

"The amount of your notes in the 1928 Series held in Washington remains unchanged at \$28,500,000. If you desire we shall be glad to place an order for printing 1934 Series notes in the \$500 and also \$1000 denominations as you have no notes of the latter denomination on hand here."

Approved unanimously.

10/30/43

-12-

Thereupon the meeting adjourned.

Walter Morie  
Secretary.

Approved:

W. C. ...  
Chairman.