A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 23, 1943, at 2:30 p.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Dreibelbis, General Attorney
Mr. Vest, Assistant General Attorney

Mr. McKee stated that Mr. Aldrich, Chairman of The Chase National Bank called him on the telephone today to say that the bank might wish to open a branch in Cairo, Egypt, for the purpose of furnishing banking facilities to American servicemen in that area, with the thought that the facilities might be expanded subsequently to Sicily or Italy, that apparently Secretary of the Treasury Morgenthau originally had opposed such a branch but since his return from North Africa was in favor of the proposal, and that Mr. Aldrich was presenting the matter to the Board informally to ascertain what its position might be.

Some of the members of the Board suggested that the matter should be taken up with the War and State Departments and that, if these departments were in favor of the establishment of the branch, the Board should not object thereto. It was also suggested that at the proper time the matter would have to be discussed with the Federal Reserve Bank of New York.

Mr. Ransom stated that the question of taxation of the Board's building had been raised again and that he would like to have Mr. Dreibelbis make a statement with respect to the matter.

Mr. Dreibelbis' statement was substantially as follows:

> We have just received another formal notice from the District of Columbia that the taxes on the Board's building are in arrears. Following the action of the Board at its meeting on July 23, 1943, at which I was authorized to discuss with Mr. Keech, Corporation Counsel for the District of Columbia, the execution by the Federal Reserve Banks of a disclaimer of any right, title, or interest in or to the Board's building, I called Mr. Keech on the telephone and told him that upon my return from California I would get in touch with him. When I did so, he was planning to leave town and said that upon his return he would call me and that until he did so nothing further need be done about the matter.
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> Last week he called to say that his people were prodding him to take some action and that November 23 was the day when the notice of delinquent taxes would be released to the press. I had lunch with him last week and told him that, while the Board might find it necessary to seek legislation on other matters, it did not want to open the subject of taxation of the building because of the possibility of its raising other questions that the Board did not want to go into at this time. So far as a lawsuit was concerned I told Mr. Keech that I did not see how a suit could be brought, that since he had stated that the District was not interested in the income itself but in the broader questions involved I had tried to figure out a way of solving the problem, and that I thought it could be done through the medium of the disclaimer, a copy of which I left with him. I emphasized the fact that while I had discussed the matter with members of the Board our conversation was at the staff level.
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> Today he called me on the telephone and read a memorandum which he proposed to send to the Commission, and after hearing the memorandum I told him that I thought it was all right but that I would like to read it to the Board.

Mr. Dreibelbis then read the draft of memorandum to which he had referred, in which the statement was made that if the proposed disclaimer were executed by the Federal Reserve Banks the position of the District of Columbia that the building was subject to taxation would be untenable.

He also stated that, if agreeable to the Board, he would inform Mr. Keech that the Board had no objection to his submitting the memorandum with the understanding that the Board's building would not be included in the public list of delinquent taxes and that, upon receipt of word from Mr. Keech that the Board of Commissioners was agreeable to the procedure, the Board of Governors would endeavor to have the disclaimer executed by the 12 Federal Reserve Banks.

Upon motion by Mr. Szymczak, the procedure outlined by Mr. Dreibelbis was approved by unanimous vote.

Mr. Ransom stated that in a recent telephone conversation President McLarin of the Federal Reserve Bank of Atlanta raised the questions (1) whether the ruling published by the Board in the September Bulletin with respect to the absorption of exchange and collection charges was applicable to such absorption for the purpose of retaining existing balances as well as obtaining new balances and (2) as to the procedure to be followed in connection with banks which ordinarily would not be examined for some time but which it was believed were absorbing exchange charges in violation of the Board's Regulation Q. He said that he and Mr. McKee had been working on a draft of a telegraphic reply, which it was anticipated would also be sent to the other Federal Reserve Banks and the Comptroller of the Currency and that it was desirable that the reply be sent as promptly as possible.

Mr. Ransom then moved that he and Mr. McKee be authorized to send the telegram in a form satisfactory to them.

This motion was put by the Chair and carried unanimously.

The telegram sent to Mr. McLarin in accordance with this authority, with copies to the Presidents of the other Federal Reserve Banks and the Comptroller of the Currency, was as follows:

"Two questions raised by you in telephone conversation with Mr. Ransom on November 18 with respect to absorption of exchange charges are answered by Board of Governors as follows:

(1) Ruling of Board published in September Bulletin is applicable regardless of whether absorption is for purpose of retaining existing balances or acquiring new balances.

(2) In interest of uniform enforcement of Regulation Q, Federal Reserve Bank, in any case where it has reason to believe from information available from all sources that a State member bank is absorbing exchange charges in violation of regulation, should proceed as promptly as practicable without waiting for next regular examination to make such investigation at the bank as may be necessary to establish material facts. In event it appears to the examiner that bank's practices with respect to absorption of exchange charges are contrary to September ruling, Federal Reserve Bank through examiner or otherwise should so inform member bank and endeavor to obtain correction. Any case in which there is a question whether practice of State member bank is in violation of regulation should be forwarded to Board for ruling.

In making an investigation examiner should make such record of facts disclosed by investigation as may be necessary to support his opinion and to enable Board of Governors to reach conclusion."

At this point Messrs. Thurston, Dreibelbis, 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 November 22, 1943, were approved unanimously.

Memorandum dated November 16, 1943, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that Arthur C. Bunce be appointed in the Domestic Business Conditions Section of that Division, with basic salary at the rate of $5,600 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum of this date from Mr. Morrill, recommending, for the reason stated in the memorandum, that the employment of J. B. Bell as a laborer in the Secretary's Office be terminated at the close of business on November 15, 1943.

Approved unanimously.

Letter to Mr. Leedy, President of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board of Governors approves the payment of salary to Mr. Charles O. Hardy, Vice President, at the rate of $12,000 per annum, for the period ending May 31, 1944, which is the rate fixed by your directors as reported in your letter of November 16, 1943.

"The Board is pleased to learn of this appointment as part of your program for the development of the work of the Research Department.

"Please advise us as to the date Mr. Hardy's appointment becomes effective."

Approved unanimously.

Letter prepared for the signature of Mr. Dreibelbis to United States Senator Charles O. Andrews, reading as follows:

"This is in response to your letter of November 12, 1943, enclosing letters from Mr. Edwin Colean, Vice President,

"St. Lucie County Bank, Fort Pierce, Florida, and Mr. Fred C. Allen, President, The Beach Bank, Jacksonville Beach, Florida.

"The ruling to which the letters refer appeared in the September 1943 issue of the Federal Reserve Bulletin at page 817. It dealt with a specific case which had been referred to the Board by the Comptroller of the Currency with a request for an interpretation.

"In 1933 Congress decided to prohibit member banks from paying interest on their demand deposits. This was accomplished by amending section 19 of the Federal Reserve Act so as to provide that no member bank 'shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand.' (Underscoring supplied) In 1935 the statute was further amended to authorize the Board to determine what shall be deemed to be a payment of interest within the meaning of the statute. This statute, as you will note, applies to member banks, that is to say, to national banks and State banks which are members of the Federal Reserve System. Neither the St. Lucie County Bank nor The Beach Bank is a member bank but it would appear from the correspondence that they maintain demand deposit accounts with one or more member banks similar to the ordinary balances maintained by other corporations or individuals. The question is whether such member banks, by means of the practice referred to in the correspondence, 'directly or indirectly, by any device whatsoever, pay any interest' on such deposit balances.

"The Board has never exercised the authority granted it in 1935 to define the term 'interest' beyond the ordinary meaning of that term under general principles of law. In 1935 it did revise its Regulation Q, 'Payment of Interest on Deposits', and included in it a definition of interest under which the absorption of exchange and collection charges by a member bank as compensation for the maintenance of a deposit would have been expressly defined as a payment of interest on such deposit; but the effective date was later deferred and the definition never became effective. In 1937 the Board's Regulation Q and the corresponding regulation of the Federal Deposit Insurance Corporation were amended by providing that for the purposes of such regulations 'interest' should mean 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit.' The purpose and effect of this amendment were to rest the meaning of the term 'interest' squarely on its meaning as a matter of general law and to deal with specific cases as they might arise upon the facts involved in such cases.

"The facts of the case reported in the Board's September ruling were developed in connection with an examination of a member bank and were submitted to the Board with a request for an interpretation. Applying general principles of law to the

"facts of the specific case, the Board expressed the opinion that the practice followed by the bank in question came within the scope of the statutory prohibition. The background of the ruling is set out in more detail in the enclosed mimeographed statement which was transmitted to the Presidents of the Federal Reserve Banks for their information. It is to be expected that the precedent established by the ruling will be followed in future cases in which the precedent is in point.

"The Board, of course, is not informed as to the identity of the member banks referred to in Mr. Allen's and Mr. Colean's respective letters. However, we understand Mr. Colean's letter to say that the bank maintaining a balance for his bank has followed a practice similar to that described in the Board's ruling. It seems equally clear that the depositary bank has made substantial payments as compensation for the use of the funds deposited with it by Mr. Colean's bank. These payments, we think practically all lawyers would agree, are 'interest' within the meaning of the statutory prohibition whatever the parties might term them.

"In conclusion, we think it is fair to raise the question of whether the losses of income to which Mr. Colean refers need be as substantial as he indicates. Obviously, the banks which have been employing the funds of his bank and contributing to its income have done so only because they believed they in turn could realize more income on the balances than the payments which they were making for their maintenance. Moreover, it cannot be argued that his bank's opportunity to invest its funds is more limited if, as reported to the Board, it is a fact that most banks which follow the described practice also follow a practice of investing the funds in Government obligations.

"I trust that this letter with the enclosures will give you the information which you request. However, Governor Ransom, who gives this subject his particular attention, has asked that I advise you of his willingness for either or both of us to discuss the whole subject with you and to come to your office for this purpose. The originals of the letters forwarded to the Board with your letter are returned herewith."

Approved unanimously.

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

"Reference is made to your letters of November 4 and 5, 1943, with enclosures, requesting reconsideration of the Board's

"ruling, as stated in its letter of September 24, 1943, to the effect that, under the terms of the inscription now placed upon reports of examination of State member banks, such reports may not be made available to representatives of the New York Clearing House Association.

"The Board has reviewed the matter in the light of the representations made and the information submitted. While the purposes of the Clearing House Association are fully appreciated, the Board feels that no change should be made in the position taken in its letter of September 24, 1943. It is felt that it is essential, and in keeping with the agreement between the three Federal supervisory agencies, that the terms of the inscription now placed upon reports of examination made by such agencies be adhered to rigidly and without exception.

"Copies of this letter are being forwarded to the Comptroller of the Currency and the Federal Deposit Insurance Corporation."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.