A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, April 8, 1944, at 11:00 a.m.

PRESENT: Mr. Szymczak
Mr. McKee
Mr. Draper
Mr. Evans

Mr. Morrill, Secretary
Mr. Bethea, 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 April 7, 1944, were approved unanimously.

Letter to the board of directors of "The Oakwood Deposit Bank Company", Oakwood, Ohio, 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 Cleveland.

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

Letter to the Federal Deposit Insurance Corporation, reading as follows:
On March 17, 1944, we forwarded the following letter, which we understand was not received by you:

Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the South Main State Bank, Houston, Texas, became a member of the Federal Reserve System on March 15, 1944, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act.

Approved unanimously.

Letter to Honorable Joseph D. Nunan, Jr., Commissioner of Internal Revenue, reading as follows:

Section 117 of the Revenue Act of 1943 added subsection (f) to section 54 of the Internal Revenue Code requiring the filing of annual returns by certain organizations, and the question has arisen whether the requirement is applicable to the Federal Reserve Banks.

As you know, the twelve Federal Reserve Banks were created under the Federal Reserve Act, the principal purposes of which were to furnish an elastic currency and to establish a more effective supervision of banking in the United States. The Federal Reserve Banks issue all Federal Reserve notes, which form the bulk of the paper currency in circulation; they act as depositaries and fiscal agents of the United States, performing most of the functions formerly performed by the United States
"Subtreasuries; they rediscount for and make advances to member banks; and they exercise bank supervisory functions.

The Federal Reserve Banks are under the direct supervision of the Board of Governors of the Federal Reserve System, and the Board files an Annual Report with Congress which contains detailed information regarding the earnings, expenses and assets of the twelve Federal Reserve Banks. A copy of the Annual Report for 1942 is enclosed, and in this connection your attention is invited to pages 60 to 71, inclusive.

"It is obvious therefore that the Federal Reserve Banks are not within the intent of section 54(f) of the Internal Revenue Code, and there are several grounds for holding that it is not applicable to them. Paragraph 6 of section 54(f) provides that no return need be filed by an organization which is 'exempt under section 101(15), if such organization is a corporation wholly owned by the United States or any agency or instrumentality thereof'. The Federal Reserve Banks are exempt from Federal taxation by section 7 of the Federal Reserve Act (U. S. Code, Title 12, section 531) and the stock of the Federal Reserve Banks is owned by the member banks of the Federal Reserve System which for certain purposes have been held to be 'instrumentalities of the United States'. For example, they were so held by the Bureau of Internal Revenue under the provisions of the Social Security Act until after that Act was amended in 1939.

"The residual ownership of the Federal Reserve Banks is in the United States since section 7 of the Federal Reserve Act (U. S. Code, Title 12, sections 289 and 290) provides that the net earnings of each Federal Reserve Bank shall be paid into its surplus fund, and if a Federal Reserve Bank is dissolved or liquidated, any surplus remaining 'shall be paid to and become the property of the United States'.

"Section 54(f) by its terms applies only to organizations 'exempt from taxation under section 101'. The Federal Reserve Banks are specifically exempted from Federal taxation by section 7 of the Federal Reserve Act as originally enacted, and, therefore, are exempt from taxation independently of section 101.

"Accordingly, it will be appreciated if you will give consideration to these points and advise the Board
"whether the Federal Reserve Banks are subject to the requirements of section 54(f) of the Internal Revenue Code."

Approved unanimously, with the understanding that, if the Reserve Banks are required to file returns, the Board's staff, as suggested in a memorandum dated April 4, 1944, from Mr. Chase, Attorney, would seek an opportunity to make suggestions regarding the form of return to be made by the Banks.

Thereupon the meeting adjourned.

Signed:

Chester Morrow
Secretary.

Approved:

[Signature]
Member.