

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 30, 1944, at 10:30 a.m.

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

Mr. Morrill, 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 November 28, 1944, were approved un-animously.

Memoranda dated November 25, 1944, from Mr. Leonard, Director of the Division of Personnel Administration, recommending that the following increases in basic annual salaries of employees in that Division be approved, effective December 1, 1944:

<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Herbert A. Johnson	Administrative Assistant	\$4,600	\$5,000
Mrs. Florence M. Poundstone	Personnel Clerk	2,300	2,500

Approved unanimously.

Letter to Mr. Meyer, Assistant Cashier of the Federal Reserve Bank of Chicago, reading as follows:

11/30/44

-2-

"The Board of Governors approves the changes in the personnel classification plan of the Detroit Branch, involving the establishment of three new positions, as submitted with your letter of November 24, 1944."

Approved unanimously.

Letter to "The Citizens Bank of Windsor", Windsor, Missouri, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to the Federal Reserve System and takes pleasure in transmitting herewith a formal certificate of your membership.

"It will be appreciated if you will acknowledge receipt of this certificate."

Approved unanimously.

Letter dated November 27, 1944, from The National City Bank of New York advising of the opening of a branch at Calcutta, India, on November 20, 1944, in accordance with the approval granted by the Board on September 7, 1944, of the establishment of the branch.

Noted.

Memorandum dated November 30, 1944, from Mr. Smead, Director of the Division of Bank Operations, reading as follows:

"The present loss-sharing agreement between the Federal Reserve Banks became effective March 1, 1943. This agreement provides for distribution among the Federal Reserve Banks, in proportion to their Section 7 surplus and contingent reserves, of losses in excess of \$500,000 which would be covered by the bankers blanket bond except for the limitation on the amount thereof and losses regardless of amount which would be covered by such bonds except for war risk and other exclusion clauses. It also provides for the distribution among the Federal Reserve Banks of any loss which would be covered by the registered mail and express insurance policies except for war risk and other exclusion clauses contained in such policies.

11/30/44

-3-

"Proposed amendments to this loss-sharing agreement relating to losses on registered mail and express shipments have now been approved by each of the twelve members of the Insurance Committee and by the President of each Federal Reserve Bank. The revised agreement, a copy of which is attached hereto, provides that 'After approval of this agreement by the Board of Governors of the Federal Reserve System, each party hereto shall duly execute a counterpart original hereof and mail the same to the Secretary of the Board of Governors of the Federal Reserve System. When such duly executed counterpart originals have been received from all the parties hereto, the Secretary of the Board of Governors of the Federal Reserve System shall notify all such parties, and this agreement shall take effect January 1, 1945, or on such later date as may be specified by the Board of Governors of the Federal Reserve System.'

"If the agreement is to become effective January 1, it will need to receive the prompt approval of the Board of Governors in order that Mr. Leach, Chairman of the Committee on Operations of the Conference of Presidents, may notify the President of each Federal Reserve Bank of such approval in time for any necessary action to be taken by the Directors of the Banks and for the agreement to be executed and received by the Board prior to January 1, 1945.

"It is recommended that the revised loss-sharing agreement be approved by the Board and prompt notification thereof be given to Mr. Leach, Chairman of the Committee on Operations of the Conference of Presidents. A draft of a telegram to Mr. Leach is attached.

"Subject to certain limitations, the agreement provides for the discontinuance of the purchase by the Federal Reserve Banks at their own expense of registered mail insurance against losses on currency, coin and security shipments between points and places anywhere in the continental United States, excluding Alaska, which are made (1) to, from, or by a Federal Reserve Bank or (2) to, from, or by others for the account of a Federal Reserve Bank, either (a) by registered mail, express or armored car service or (b) under special guard by railroad, automobile, airplane, or any other method of transportation. These limitations refer principally to losses in excess of a specified amount on any one shipment, to losses resulting from any dishonest, fraudulent, or criminal act of an employee of a sender or addressee, and to any losses to the extent they are recoverable from any insurance, surety, or indemnity covering such loss. In general the limitation as to each loss on a shipment made by a Federal Reserve Bank (and shipments

11/30/44

-4-

"of Federal Reserve notes from Washington) to any one addressee on any one day is as follows:

By registered mail or express, \$10,000,000.

By registered airmail or airexpress, \$5,000,000.

By armored car or under special guard, \$5,000,000.

In the case of shipments to a Federal Reserve Bank by member and nonmember banks, the agreement provides that the bank shipping, or causing, or ordering the shipment will assume any loss in excess of \$2,000,000 on all shipments by any one banking office to the Federal Reserve Bank on any one day.

"Under the agreement the first \$10,000 of any loss on a registered mail and express shipment is to be absorbed by the Federal Reserve Bank sustaining the loss. The portion of any loss in excess of \$10,000 is to be distributed among all Federal Reserve Banks on the basis of the volume of their shipments in the preceding three years until the distributable losses total \$500,000 in any one year. Any excess of distributable losses over \$500,000 in any calendar year is to be distributed among Federal Reserve Banks in proportion to their Section 7 surplus and contingent reserves.

"In order to make the coverage on shipments as nearly as practicable the same as that now covered by purchased insurance, the agreement provides that subject to the terms of its circular a Federal Reserve Bank will assume all risks incident to the transportation of shipments of currency or coin (a) by registered mail and (b) by such other means of transportation as may be selected by the Federal Reserve Bank from the time such shipments leave the office of the sending bank until delivered to the office of the addressee bank.

"The agreement provides that the Federal Reserve Bank shall establish reserves on its books for registered mail losses. The initial reserve is to represent a sum equal to 10¢ per thousand dollars on the total dollar volume of all shipments of paper currency, coin, and securities either made or received by such Federal Reserve Bank at its expense (excluding only shipments by Railway Express Agency, Inc. which has assumed the ordinary risks of loss) during the three years ending on the preceding November 30. Each Federal Reserve Bank is thereafter required to add to such reserve an amount equal to 2¢ per thousand dollars on the total value of all shipments sent and received by it. If the amount of a Federal Reserve Bank's reserve should at any time be reduced to a figure less than 80 per cent of the amount provided initially, such reserve is to be restored to the amount initially provided within 10 days."

11/30/44

-5-

Approved unanimously, with the understanding that the following telegram would be sent today to Mr. Leach, President of the Federal Reserve Bank of Richmond:

"Referring your letter of November 28, 1944, Board has approved revised loss-sharing agreement and Exhibit A attached thereto, copy of which was received from Dillard along with copy of his letter to you dated November 27. Board hopes that copies of agreement will be executed by all Banks in time for revised agreement to become effective January 1, 1945."

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

"This is in response to Mr. Gidney's letter of October 13, 1944, on the subject of the application of section 32 of the Banking Act of 1933 to the continued service of Mr. H. I. Thorp as a director of Peoples Bank and Trust Company of Westfield, Westfield, New Jersey. Mr. Thorp, it appears, is also a partner in the firm of Laurence M. Marks & Co., New York City. It is also clear that the firm of Laurence M. Marks & Co. engages in business of the kinds described in section 32, and your bank, following the precedents established by the Board in other cases, expressed the opinion to Mr. Thorp and to Peoples Bank and Trust Company that Laurence M. Marks & Co. is 'primarily' so engaged within the meaning of section 32.

"Mr. Henry L. Rost, president of the Peoples Bank and Trust Company, questions the correctness of an interpretation of the word 'primarily' which would result in the application of the statute to an interlocking relationship where the firm's business of the types described in section 32 does not constitute at least 50 per cent of its total business. In these circumstances Mr. Rost wishes to arrange an interview in Washington.

"The Board will be very glad to discuss the question further with Mr. Rost but, at the same time, believes that it is only fair that he should know in advance some of the factors which have influenced the Board in adopting the views heretofore expressed in other cases.

"Section 32 is one of several measures enacted in 1933 designed to divorce commercial banking from investment banking. The general background of these provisions is fully and

11/30/44

-6-

"authoritatively discussed in Senator Bulkley's speech introducing the bill on May 10, 1932, reported in the Congressional Record beginning page 10222. In this speech Senator Buckley described the growth of the securities business in commercial banks and their affiliates, and the resulting conflicts of interests; he referred to the fact that commercial banks were not only in contact with prospective issuers of securities, but were also well situated to undertake the distribution of securities because of their relations with their correspondent banks; he referred to the use of lists of depositors as a means of distributing securities; and he referred to the rule of English and American jurisprudence that a trustee shall not sell to his trust. Certainly, the fact that 49 per cent (as distinguished from 51 per cent) of a firm's business happened to be underwriting would not, in itself, avert the consequences sought by the legislation.

"It is a fact, of course, that one construction of the word 'primarily' could lead in some cases to the adoption of a quantitative test such as Mr. Rost suggests. On the other hand, such is not the only accepted meaning of the word. It is frequently used in another sense. For instance, red is one of the 'primary' colors but it is not the only primary color; Saturn is one of the 'primary' planets but it is neither the only nor the largest one. Standard dictionaries cite as examples of the use of the word in the latter sense expressions similar to the expression 'the primary causes of war'.

"The Board, in its prior considerations of the question, has always had in mind the rules of construction laid down by the courts that, while all of the words should be considered as having meaning, where a word used in a statute is susceptible of several meanings, that meaning should be adopted which best accords with the intention of the legislature in enacting the statute and that a word used in a statute should not be construed to produce an absurd consequence when it is susceptible of another meaning in accordance with the legislative intent. Under the quantitative test suggested by Mr. Rost, underwriting could be one of the essential or fundamental parts of the company's business but, unless it constituted at least 50 per cent of the total, the business of the firm would not come within the scope of the statute. Presumably if the firm engaged in three types of business, each of which constituted a third of its total business, it would not be primarily engaged in any business. Indeed, in the light of the reduced amount of underwriting, in relation to the other types of business in which underwriting firms engage, which has taken place since the enactment of the statute, it might well be that there would be no firms to which section 32 would be applicable.

11/30/44

-7-

"These are the circumstances which have caused the Board to construe the word 'primarily' in a different sense from that suggested by Mr. Rost. Moreover, while it has always looked at the sources from which a particular firm derives its operating revenue, it considers that factor as but one of all the factors. It also considers such factors as the purposes and functions of the organization, the business which it holds itself out as doing, and such other circumstances as may have a bearing upon the question.

"Every interlocking relationship of the type described in section 32, of course, did not result in the consequences which the statute was designed to prevent. However, it seems clear that Congress, in order to prevent such a consequence, directed its attention to the elimination of the relationships. Accordingly, while the Board is in sympathy with Mr. Rost's desire to retain experienced and qualified directors, it has not felt that it could properly construe section 32 in the manner he suggests.

"As to a date for Mr. Rost to come to Washington, it is suggested that a mutually convenient date can best be arranged through your bank as intermediary. Please have Mr. Rost advised of the substance of this letter."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. S. Cooper
Chairman.