

12/22/44 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 22, 1944, at 11:00 a.m.

PRESENT: 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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Director of the Division of Bank Operations
Mr. Paulger, Director of the Division of Examinations
Mr. Vest, Assistant General Attorney
Mr. Wyatt, General Counsel
Mr. Gardner, Chief, International Section, Division of Research and Statistics

There were presented telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Messrs. Treiber and McCreedy, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approved the establishment without change by the Federal Reserve Banks of St. Louis, Dallas, and San Francisco on

12/22/44

-2-

December 19, by the Federal Reserve Bank of Atlanta on December 20, by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on December 21, 1944, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. Szymczak referred to the brief recently filed by the Federal Reserve Bank of New York as *amicus curiae* in the case of John Barr v. the United States, which involved the certification by the Federal Reserve Bank pursuant to law of "official" and "free" rates for pounds sterling. He said that, while Mr. Dreibelbis and the Treasury Department were informed by the Federal Reserve Bank of New York that the brief was being prepared, copies were not received by the Board or the Treasury from the New York Bank until after it had been filed. After referring to comments appearing in the New York Times and The American Banker with respect to this matter, Mr. Szymczak stated that he had read the brief and had come to the conclusion that no action was called for by the Board in relation to it, at least at this time. In the discussion which ensued the other members of the Board concurred in Mr. Szymczak's opinion.

Mr. Szymczak then stated that in accordance with the action taken at the meeting of the Board on December 1, 1944, a meeting was held at the State Department, at which there were in attendance

-3-

12/22/44

representatives of the Board, the State Department, and the Federal Reserve Bank of New York, for a discussion of the action to be taken in connection with the acquisition by the central bank of Mexico of stock control of the Pan American Trust Company of New York. He said that, after reading the memorandum which had been prepared in the Board's offices for presentation to the State Department, the representatives of the Department expressed agreement with the position taken in the memorandum that a foreign central bank should not control a bank in this country and proposed that the matter be taken up by the State Department with the proper Mexican authorities. Mr. Szymczak also said that the day following the meeting with the representatives of the State Department, Mr. Messersmith, the American Ambassador to Mexico, was in Washington and the State Department arranged a meeting with him at which it was not possible for the representatives of the Federal Reserve Bank of New York to be present because of the short notice for the conference. At this second meeting Ambassador Messersmith as well as the other members of the State Department staff took the position that the matter should be taken up promptly with the Mexican Government through the American Embassy and requested that before that was done the State Department be furnished with additional information with respect to the applicable law and central banking practices. Mr. Szymczak went on to say that this material was being

12/22/44

-4-

prepared but that in the meantime Mr. Tiebout, Assistant General Counsel of the Federal Reserve Bank of New York, upon being advised by telephone of the conference with Mr. Messersmith, renewed a suggestion previously made that the New York Bank invite Mr. Villasenor, Director General of the central bank of Mexico, to New York for a discussion of the matter looking toward the disposition of the bank's holdings in Pan American Trust Company.

The question before the Board, Mr. Szymczak said, was the procedure that should be followed in the circumstances and, if Mr. Villasenor should ask for an opportunity to be heard, whether he should be asked to come to the offices of the Board or the Federal Reserve Bank of New York.

Members of the Board suggested that, inasmuch as the matter was being treated by the State Department as one for handling through diplomatic channels, it should be handled by the State Department and no further action should be taken by the Board or the New York Bank pending further developments, it being understood that if a request were received from Mr. Villasenor for a hearing the procedure to be followed in that connection would be determined following receipt of the request.

At the conclusion of the discussion upon motion by Mr. Szymczak, it was unanimously agreed that the matter should be handled in accordance with the above suggestion, and it was understood that the New York Bank would be advised by telephone accordingly.

-5-

12/22/44

During the discussion of the above matter Mr. Szymczak said that he had talked over the telephone with Under Secretary Bell about it and that the Treasury had been fully informed regarding it.

So that the members of the Board might be kept informed, Mr. Szymczak reviewed in detail the status of the draft of the enabling legislation in connection with the Bretton Woods agreements and the conferences which had been held since the meeting of the Board on December 7, 1944, with respect to various provisions of the legislation in which the Federal Reserve System was interested.

Before this meeting there had been sent to the individual members of the Board copies of a memorandum dated December 21, 1943, from Mr. Smead submitting requests from the Federal Reserve Banks for authority to pay the regular semiannual dividend at the end of 1944 to provide for losses and to make charge offs or other adjustments including transfers from surplus to reserves for contingencies. The memorandum stated that current earnings for 1944 would be about \$104,000,000 and current expenses \$49,400,000, leaving current net earnings of \$54,600,000; that additions to current net earnings including \$3,200,000 of profits on sales of Government securities would amount to about \$3,800,000; that deductions from current net earnings would amount to about \$500,000; and that net earnings for the year were estimated at \$57,900,000. Payments to the Treasury under the provisions of section 13b of the Federal Reserve Act were expected to total about \$300,000

12/22/44

-6-

and member bank dividends \$9,500,000, leaving net earnings available for transfer to surplus (sec. 7) of about \$48,000,000, of which amount the banks would transfer about \$7,300,000 to reserves for contingencies.

The memorandum further stated that the Federal Reserve Banks of Richmond, Atlanta, and Kansas City, which at the present time had relatively large reserves for contingencies in relation to their surplus accounts, had proposed to make substantial additional transfers to contingency reserves but that, since these transfers would further accentuate the relatively high ratio of contingent reserves to surplus for these banks, Mr. Smead, after conferring with Mr. Szymczak, telephoned the Presidents of the three Banks and explained the situation to them with the result that Messrs. Leach and McLarin agreed not to make any transfer to contingent reserves at this time and Mr. Leedy agreed to reduce the proposed transfer to \$387,000, an amount sufficient to bring the reserve for contingencies at that Bank up to \$3,500,000.

Recommendations contained in the memorandum with respect to the requests of the Federal Reserve Banks were approved unanimously as follows, with the understanding that the telegrams to the banks would state that it was assumed that "reserves for registered mail losses" would be set up by each bank at the end of the year in accordance with the procedure set forth on pages 40 and 41 of the revised earnings and expenses manual:

12/22/44

-7-

1. Each Federal Reserve Bank was authorized to pay the regular semiannual dividend on December 30, estimated to amount to a total for the 12 Banks of \$4,804,000.
2. The following Federal Reserve Banks were authorized to transfer from surplus (sec. 7) to reserves for contingencies the respective amounts shown:

Philadelphia	\$1,400,000
Cleveland	955,000
St. Louis	1,300,000
Kansas City	387,000
Dallas	500,000
San Francisco	2,750,000

3. The Federal Reserve Bank of Cleveland was authorized to reduce the carrying value of land owned in Cincinnati from \$600,000 to \$200,000, the estimated value on the basis of an assessed valuation of \$131,000, which was said to be approximately 67 per cent of actual value.
4. The Federal Reserve Bank of Cleveland was authorized to set up a reserve for estimated losses on an industrial loan in an amount equal to the amount of net earnings on industrial loans and commitments for the year estimated at \$5,800, and the Federal Reserve Bank of St. Louis was authorized to set up an additional reserve of \$7,000 against an industrial loan.
5. The Federal Reserve Bank of Boston was authorized to decrease by \$44,300 the amount of reserves carried against estimated losses on industrial advances under section 13b.

At this point Messrs. Smead and Gardner withdrew from the meeting.

Mr. Evans stated that the suggestion had been made that the paper prepared by Mr. Parry, Director of the Division of Security Loans, under the title "Selective Instruments of National Credit Policy", which

12/22/44

-8-

was included among the papers on banking and credit policy which were discussed at the meeting with the Presidents on December 12, 1944, be published in the February issue of the Federal Reserve Bulletin. Mr. Evans also said that this was the only paper in the group that was ready for publication, and that therefore, the question of the publication of the remaining papers was not being raised at this time as that would be a matter for later decision, but that he had talked to Mr. Williams, Chairman of the Research Committee of the Presidents' Conference, who stated that the publication of Mr. Parry's paper now would be well timed and the Presidents' Conference Committee would have no objection.

Mr. Ransom stated that he would be very much in favor of the publication of the paper for the reason that it related to a number of questions involved in the future policy with respect to Regulation W and that it would be beneficial to have the widest possible discussion of various views relating to these matters.

At the conclusion of a discussion, upon motion by Mr. Evans, the publication of Mr. Parry's paper was approved unanimously with the understanding, however, that Mr. Thurston would first clear the matter with Chairman Eccles, and that if he had any question regarding it, it would be considered by the Board again.

There was then read a circular letter dated December 18, 1944, apparently addressed to all nonpar banks by R. E. Gormley, Chairman of the National Association of Nonpar Banks, with respect to the recent

12/22/44

-9-

effort to bring about the passage of the Brown-Maybank bill in the Senate. All of the members of the Board present were of the opinion that the failure of the Senate to act on the Brown-Maybank bill had not settled the matter, and Mr. Gormley's letter only served to emphasize that opinion. There was a brief informal discussion of further steps that might be taken by the Board in the matter, but no action was taken, it being understood that drafts of letters were being prepared which would be submitted to the Board for approval at a later date.

At this point Messrs. Thurston, Goldenweiser, Paulger, Vest, and Wyatt withdrew from the meeting.

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 December 21, 1944, were approved unanimously.

Letter to Mr. Ruml, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"In accordance with the request contained in Mr. Rice's letter of December 16, 1944, the Board of Governors approves the payment of salaries to the following members of the Federal Reserve Agent's staff, at the rates shown, effective January 1, 1945:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Norman C. Cooper	Alternate Assistant F. R. Agent	\$4,000

12/22/44

-10-

<u>"Name: (Continued)"</u>	<u>Title</u>	<u>Annual Salary</u>
Joseph H. P. Farnon	Alternate Assistant F. R. Agent	\$3,800
Edna K. Reynolds (Mrs.)	Alternate Assistant F. R. Agent	2,800"

Approved unanimously.

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

"The Board of Governors approves the payment of salary to Mr. Edward A. Wayne, Vice President, Federal Reserve Bank of Richmond, for the period January 1, 1945 to May 31, 1945, inclusive, at the rate of \$11,000 per annum, which is the rate fixed by your Board of Directors as reported in your letter of December 15, 1944."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"Reference is made to the Board's letter S-803, dated October 27, 1944, regarding reports on Form F.R. 579 of Regulation V loans. In order to assist the Office of Contract Settlement in the preparation and maintenance of essential statistical records, it will be appreciated if, in the future, you will indicate on Form F.R. 579, following the name of the borrower, under each T loan guarantee and 1944-V loan guarantee, the date the application for such guarantee was received by your Bank."

Approved unanimously.

Letter to Mr. Jenks, Vice President, Peoples National Bank of Washington, Seattle, Washington, reading as follows:

"In the absence from the city of Chairman Eccles, I am replying to your letter of December 6. In your letter you set forth the difficulties and delays you have experienced in connection with an application for the

12/22/44

-11-

"guarantee of a VT loan for the Lamb-Grays Harbor Company, Hoquiam, Washington. It is regretted that there has been so much delay in arranging for the adequate financing of this Company. This delay, as you know, has been due to the fact that the war contracts of the borrower involve at least two of the Armed Services, namely, the Maritime Commission and the War Department. In fact, the predominant interest has shifted from time to time, resulting in a present guarantee by the Maritime Commission but a contemplated refinancing in the near future with the War Department, which will hold the predominant interest as soon as the increase is awarded in the ordnance contract.

"Following receipt of your letter, the War Loans Committee has been in touch with the Services and with the Federal Reserve Bank of San Francisco. From information now available, it would appear that the financing problems of the Company will be shortly taken care of in a satisfactory manner. However, should you have any further difficulty or experience any unreasonable delay, you should not hesitate to take the matter up with the Federal Reserve Bank of San Francisco which, in turn, will promptly communicate with the Board's War Loans Committee."

Approved unanimously.

Telegram to the Presidents of all the Federal Reserve Banks reading as follows:

"The Board of Governors has received from each Federal Reserve Bank an executed counterpart original of the revised Loss Sharing Agreement between the Federal Reserve Banks, and pursuant to the provisions of Section 14 thereof the revised Loss Sharing Agreement will take effect January 1, 1945."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved: Ronald Ransom
Vice Chairman.