

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, October 31, 1945, at 11:00 a.m.

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

Mr. Carpenter, Secretary  
Mr. Connell, General Assistant,  
Office of the Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, 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 October 29, 1945, were approved unanimously.

Letter to Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, reading as follows:

"In response to your letter of October 26, 1945, you are advised that the Board approves payment of the bill dated September 15, 1945, of Winthrop, Stimson, Putnam & Roberts, for a fee of \$1,000, and disbursements of \$15.19 for services in the case of Schmoll v. Federal Reserve Bank of New York.

Approved unanimously.

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, the Board approves the

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application of the "Bank of Gueydan," Gueydan, Louisiana, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Atlanta. The telegram requested that the Federal Reserve Bank advise the applicant bank of the Board's approval of the application and conditions of membership prescribed, together with necessary instructions as to the procedure for accomplishing membership, and stated that a letter containing detailed advice regarding such approval would be forwarded to the applicant bank through the Reserve Bank. The telegram contained the following additional statement:

"It is understood that the bank will discontinue prior to its admission to membership, the activities in Lake Arthur, Louisiana, which your counsel construed as operation of a branch within the meaning of the Federal Reserve Act. Also, it is assumed that you will follow the matter of the bank's bringing into conformity with the provisions of law and the Board's regulations, the savings accounts listed on Page 16 of the report of examination for membership."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. Fred M. Vinson, Secretary of the Treasury, reading as follows:

"There is transmitted herewith a copy of a letter dated October 22, 1945, addressed to the Board by Mr. Robert V. Fleming, a member of the Federal Advisory Council, recommending on behalf of the Council the termination of the present procedure for the licensing of national banks and State member banks of the Federal Reserve System pursuant to Presidential Proclamations of March 6 and March 9, 1933, and Executive Order of March 10, 1933.

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"The Board of Governors feels that the licensing requirement no longer serves any useful purpose and concurs in the recommendation made by the Federal Advisory Council.

"One method by which the recommendation could be effectuated would be the issuance of a proclamation by the President expressly excluding member banks from the scope of the Proclamations of March 6 and March 9, 1933, and the Executive Order of March 10, 1933, and also expressly proclaiming, solely for the purposes of the provisions of section 4 of the Emergency Banking Act of March 9, 1933, a termination of the 'emergency period' therein mentioned. Such proclamation could include, if desired, a proviso similar to that in the proclamation of December 30, 1933, with respect to nonmember banks, restricting the payment of gold, the withdrawal of currency for hoarding, and engaging in foreign exchange transactions.

"The Board hopes that you will concur in this recommendation and that appropriate steps may be taken for the early termination of the licensing procedure."

Approved unanimously.

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

"For your information and guidance there is enclosed a copy of a memorandum, dated October 29, 1945, received from the Navy Department, signed by Lieutenant Commander George W. Cook, Jr., Chief of the Finance Division, requesting that after November 1, 1945, all certificates of deposit issued under Executive Order 9112 and the Contract Settlement Act of 1944 in connection with fees collected for the account of the Navy Department be made out to Lieutenant Commander A. Bruce Johnson."

Approved unanimously.

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

"This will acknowledge your letter of October 22, 1945, enclosing a copy of a letter from the Tide Water Associated Oil Company, San Francisco, relating to Regulation W and the sale of tires, batteries, tubes, and

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"accessories by means of credit cards.

"Your answer to them was, as you know, entirely correct as the regulation stands at present. The considerations advanced in their letter bear on the question of whether the regulation should be amended and you may be sure that they will be considered by the Board, in due course, in that connection. The basic question appears to be that of when the time will be ripe to strike batteries, etc., off the list of articles."

Approved unanimously.

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

"Your wire October 30. Board of Governors approves extension by Federal Reserve Bank of New York of loan or loans to Royal Netherlands Government subject to following terms and conditions:

1. The amount to be loaned shall not exceed \$35,000,000 in the aggregate at any one time outstanding, such loans to be made up to 98 per cent of the value of the refined gold bars held by you in your vaults as collateral.
2. Such loan or loans to run for three months, but no loan or renewal thereof to mature later than November 1, 1946.
3. Interest, until further notice, to be at rate of 1 per cent per annum on amounts actually advanced.

It is understood that usual participation will be offered to the other Federal Reserve Banks."

Approved unanimously.

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

"This letter refers to the recommendations with respect to compensation policy of the Federal Reserve Banks as approved at the recent meeting of the Conference of Presidents and discussed with the Board of Governors at a joint meeting on October 18, 1945.

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"At the time of the joint meeting the Presidents were informed that the Board favored their recommendation relative to the discontinuance of the payment by the Reserve Banks of supplemental compensation and an increase in the maximum annual salary for each position in the respective classification plans of the Banks in an amount equal to the supplemental compensation authorized by the Boards of Directors of the Banks.

"In order that your Bank may be in a position to carry such an arrangement into effect, the Board authorizes, upon appropriate action by your Board of Directors, an increase in the maximum annual salaries under the personnel classification plan of your Bank by the amount of supplemental compensation applicable to the respective positions under the formula of supplemental compensation which has been authorized heretofore by your Board of Directors.

"If any action is taken under such authorization, please furnish the Board promptly with a list of positions affected, showing both the present and the adjusted maximum salaries. Please advise also of the dates of discontinuance of the payment of supplemental compensation and of the resultant increases in maximum salaries.

"In order that any program with respect to the discontinuance of supplemental compensation may apply to all now receiving such compensation, officers as well as employees, the Board will approve requests, if the directors so authorize, for such increases in the salaries of officers as are necessary to convert into basic salary the amount of supplemental compensation being received by an officer under the formula which has been authorized heretofore by the directors.

"In submitting a request for such approval, please accompany it with a list of the salaries affected, showing both the present and the adjusted salaries, and with advice of the effective dates proposed for discontinuance of the payment of supplemental compensation and the resultant increases in salaries.

"The Presidents' Conference approved an additional recommendation that authority be sought to exceed the maximum annual salaries which would be provided in the personnel classification plans, when revised as proposed above, by as much as 15 per cent on the first \$3,000 provided that this amount added to the adjusted maximum annual salary would not exceed a total of \$7,500. During the joint

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"meeting with the Presidents it was made clear that this proposal was designed as a temporary measure to enable the banks to meet special individual situations pending a general revision of the personnel classification plans of the Banks and that it was not expected that the authority would be used to increase the salaries of all employees.

"It was understood that a committee of the Presidents' Conference would prepare a statement setting forth the reasons for the recommendation, which would be presented by each of the Presidents to the boards of directors of his Bank for action, and that each Bank would submit the matter to the Board of Governors for consideration in the light of the action taken by the board of directors of the Bank.

"On the basis of the discussions at the joint meeting, the Board of Governors is prepared to give careful consideration to such requests for adjustments along the lines recommended by the Presidents as the directors of the respective Reserve Banks may wish to authorize.

"A copy of this letter is being sent to the Chairman and President of each of the Federal Reserve Banks."

Approved unanimously.

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

"Reference is made to the Board's letters S-83 of March 29, 1938, and R-465 of May 15, 1939, regarding visits to the Federal Reserve Banks by representatives of the Division of Bank Operations for the purpose of reviewing fiscal agency and other expenses, and particularly the methods followed in allocating expenses to the various functions and expense units.

"The Treasury advised all Federal Reserve Banks on August 4, 1945, that from the present trend of questions and investigative inquiries from both the Bureau of the Budget and the Congressional Appropriations Committees it is evident a more accurate analysis of expenditures made by Federal Reserve Banks as fiscal agents must be developed for the purpose of justifying estimates for the Treasury's annual appropriation. The Treasury pointed out that, because of expanding activities, reimbursement to

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"the Banks has increased from a total of approximately \$1,500,000 for the fiscal year 1941 to \$25,000,000 for the fiscal year 1945. It further stated that it is anticipated this expenditure will be subjected to more searching questions during the postwar period when appropriation requests will undoubtedly be reviewed with increasing stress upon reduction in Government spending.

"In this connection, the Treasury in its August 4, 1945, letter requested the Reserve Banks to submit a new statement (Form PD 804-A) with their monthly requests for reimbursement of expenses. Form PD 804-A provides for breaking down the expenses of handling United States Savings Bonds into nine units and the cost of performing work incident to other Treasury issues into eight units. Both the Board and Treasury received inquiries from a number of Federal Reserve Banks with respect to the preparation of this form, which involves a classification of expenses in considerable more detail than previously requested either by the Treasury or by the Board.

"Other Government departments and agencies are, of course, also very much interested in reimbursable expenses and from time to time the Board has received inquiries from some of them with respect thereto. As you no doubt know, the General Accounting Office is now required to audit the financial transactions of all Government corporations. While the Reserve Banks act as fiscal agents for a number of Government corporations, such audits should not, of course, extend to the accounting records of the Federal Reserve Banks (except those maintained in their capacity as fiscal agents, custodians, and depositaries) and if any questions should be raised with respect to such records, particularly those relating to operating costs, it is suggested that they be referred to the Board of Governors.

"Sometime before the Treasury sent the letter referred to above, the Board had agreed that it stands in somewhat the same relationship to the Federal Reserve Banks as the General Accounting Office to Government departments and agencies; that accordingly the Board should be relied upon to see that the fiscal agency operations of the Reserve Banks are efficiently and economically conducted and that the cost of such operations are reasonable and are accurately accounted for. As mentioned in the Board's letter of January 16, 1945, the Board feels that Congress has placed upon it

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"a substantial measure of responsibility for the expenditures of the Reserve Banks. It was also agreed that field surveys, such as those referred to in the Board's letters S-83 and R-465, would be carried on by the Division of Bank Operations as they have been in the past and that there might be some expansion of the studies at the various Reserve Banks. Pursuant to this understanding, representatives of the Division of Bank Operations visited several Federal Reserve Banks but found it difficult to review allocations of functional expenses, reports on which are made only once a year, and to make worthwhile comparisons of unit costs.

"Under the circumstances, arrangements were made recently to have representatives of two Reserve Banks and a member of the Board's staff review the Functional Expense Report, which was revised and simplified as a wartime measure in 1944, with the view of improving it from a cost accounting standpoint. A copy of their suggestions is attached, and it will be appreciated if you will furnish the Board with any comments or suggestions you may wish to make with respect thereto. It is planned to have such revisions in the present Functional Expense Report as are adopted made effective as of January 1, 1946, and field surveys will be resumed by the Division of Bank Operations shortly thereafter.

"The attached suggestions do not cover the Treasury Issues and United States Savings Bonds units as it was decided to defer consideration of these units until after receipt of the special reports on Savings Bonds operations for the six-month period ending October 31, 1945, which were requested by the Division of Bank Operations on March 31, 1945. The Treasury advised all Reserve Banks on September 28, 1945, that it had decided to withhold requesting submission of PD 804-A pending study of these reports and if the data should prove insufficient it hoped through mutual agreement a functional report more simple than PD 804-A might be devised which would meet the requirements both of the Board and the Treasury. In the circumstances, it will be appreciated if the Savings Bonds reports are rendered promptly after October 31 (by November 15 if practicable) in order to allow sufficient time before the end of the year to make any additional changes necessary in the Functional Expense Report form.



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"Replies to the Board's letter of March 29, 1945, regarding the Functional Expense Exhibit for the calendar year 1944 indicate that there is some doubt as to the accuracy of certain of the figures reported therein. It is thought that such inaccuracies as may exist are due in large part at least to the manpower problem during the war. If your Bank has not done so recently, you may now wish to have a survey made of the adequacy of its cost accounting system including both personnel and records. It would be helpful in this connection if you would inform the Board the name of the official of your Bank and each branch, if any, who is charged with responsibility for the preparation of the Functional Expense Report.

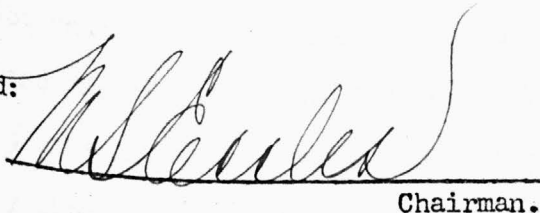
"The Board will be pleased to have your general views on these matters by November 15, if practicable, so there may be ample time to have the forms printed and distributed by the first of the year."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.