

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 3, 1946, at 2:30 p.m.

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

Mr. Carpenter, Secretary  
 Mr. Hammond, Assistant Secretary  
 Mr. Connell, General Assistant,  
 Office of the Secretary  
 Mr. Morrill, Special Adviser  
 Mr. Thurston, Assistant to the Chairman  
 Mr. Paulger, Director of the Division  
 of Examinations  
 Mr. Leonard, Director of the Division  
 of Personnel Administration  
 Mr. Vest, General Attorney  
 Mr. Cagle, Assistant Director of the  
 Division of Examinations  
 Mr. Wyatt, General Counsel

Mr. McKee referred to a letter dated January 2, 1946, from Mr. Leach, President of the Federal Reserve Bank of Richmond, transmitting a copy of a letter dated December 27, 1945, from Mr. Fleming, President of the Riggs National Bank of Washington, D. C., inquiring whether, under the provisions of section 11(a) of Regulation F, Trust Powers of National Banks, in cases in which the bank holds in a fiduciary capacity certain shares of its own stock, it may exercise the preemptive right which the holder of such stock has to purchase shares of additional stock to be issued by the bank. Enclosed with Mr. Leach's letter was a memorandum from Mr. Wallace, Counsel for the Federal Reserve Bank of Richmond, dated January 2, 1946, in which the opinion was expressed

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that the national bank might properly be advised that section 11(a) of Regulation F does not forbid the exercise of the right in those cases in which under the wills or instruments creating the trust, construed in the light of applicable law, a corporate fiduciary other than a national bank would have the right to do so.

Mr. McKee stated that prior to the receipt of Mr. Leach's letter the matter had been discussed informally by him and Mr. Ransom with Mr. Sidney Taliaferro, Vice President and Trust Officer of the Riggs National Bank, and that in subsequent discussions with Mr. Vest it appeared that section 11(a) of the Board's Regulation F was not directed toward situations of the kind in question. Mr. McKee expressed the opinion that the ruling made by the Board in its wire of April 13, 1945, to Mr. Harris, Vice President of the Detroit Branch of the Federal Reserve Bank of Chicago, in connection with a similar inquiry raised by the National Bank of Detroit, Detroit, Michigan, was too restrictive and that the Board might take the position that there would be no objection to the Riggs National Bank selling rights to obtain cash with which to exercise the remaining rights held in a trust, and he would so recommend to the Board.

The matter was discussed in the light of the purposes of section 11(a) of Regulation F, and at the conclusion of the discussion Mr. McKee moved approval of the following letter to Mr. Leach, with the understanding that a copy would be sent by messenger today to the Riggs National Bank so that the Bank could be advised of the Board's position prior to a meeting of the

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board of directors which was scheduled to be held tomorrow:

"This refers to your letter of January 2, 1946, with respect to the inquiry of the Riggs National Bank of Washington, D. C., regarding the interpretation of section 11(a) of Regulation F as to the investment of trust funds in the stock of the bank.

"It appears that it is proposed to increase the common stock of the bank by 20,000 shares, of which 10,000 will be issued as a stock dividend of one share for each three shares now held, and an additional 10,000 shares will be sold at \$300 per share to the holders of rights. The holder of each share of present stock will be entitled to receive one right and it will require three rights for the purchase of one share of new stock. The bank holds in a trust capacity, in 27 separate accounts, a total of 1,526 shares of its common stock and expresses the opinion that it would be very much to the interests of beneficiaries of trusts to subscribe to the new stock in accounts which receive the rights and have available assets. The question is raised whether in view of section 11(a) of Regulation F the rights to subscribe to new stock can be exercised on behalf of the several trust estates which are entitled to receive them.

"Regulation F is not to be interpreted as preventing a trustee bank from selling on behalf of a trust estate a portion of the subscription rights received by the estate and using the proceeds thus realized to exercise the remaining rights. For example, if a certain trust estate should be entitled to twelve rights to subscribe to additional shares, the bank might, if it deemed it in the interest of the trust estate to do so, sell, say, eight or nine of such rights and use the proceeds obtained from such sale to buy from the bank the number of share of its stock which may be subscribed with the remaining rights. If the proceeds of all of the rights to which the trust estate is entitled are insufficient to buy any shares, none of the rights may be exercised and in no case should any funds be used for the exercise of rights to purchase the bank's stock except those derived from the sale of other rights to purchase such stock. Of course, in a case in which a third party has the power under the trust instrument to direct the bank to make such an investment, section 11(a) of Regulation F does not prohibit the bank from exercising rights pursuant to the direction of such person.

"The board of directors of the bank and the trust investment committee should always bear in mind that they have the responsibility for the investment of trust funds, and the fact that

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"rights to invest in the bank's own stock may be utilized to the limited extent indicated above under the Board's Regulation F does not in any way relieve them of this responsibility.

"We are sending a copy of this letter directly to Riggs National Bank in order that it may be promptly informed of the Board's position in this matter."

Mr. McKee's motion was put by the Chair and carried unanimously.

Mr. Smead, Director of the Division of Bank Operations, entered the meeting and presented the following draft of statement for the press relating to earnings and expenses of the Federal Reserve Banks for the year 1945:

"Preliminary figures received from the Federal Reserve Banks indicate that during the year 1945 their current earnings amounted to \$142 million. Current expenses were \$49 million. After deducting noncurrent charges and adding profits on sales of Government securities, net earnings for the year amounted to \$93 million compared with \$58 million for 1944.

"As required by the Federal Reserve Act, the Federal Reserve Banks paid dividends of \$10 million to their member banks. The remaining net earnings were transferred to surplus accounts or paid to the United States Treasury under the provisions of Section 13b of the Federal Reserve Act relating to industrial loans. At the end of the year the Federal Reserve Banks also transferred to their surplus accounts \$48 million from reserves for contingencies."

The statement was approved unanimously for immediate release, together with the following sentence to be included in the weekly statement of condition of the Federal Reserve Banks to be released today:

"The surplus of the Federal Reserve Banks was increased at the end of the year from \$228,153,000 to \$358,355,000. Of the increase, about \$82,000,000 came from earnings in excess of expense and dividend requirements during 1945 and about \$48,000,000 from reserves for contingencies which are carried as part of the capital accounts of the Federal Reserve Banks."

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Mr. Smead then withdrew from the meeting.

Mr. Evans referred to the informal consideration by the members of the Board of Earl C. Smith of Detroit, Illinois, as a Class C Director of the Federal Reserve Bank of St. Louis, for the unexpired portion of the term ending December 31, 1948, and stated that it had been ascertained that Mr. Smith did not contemplate accepting any political office and that while he was a vice president, director, and stockholder of the First National Bank of Pittsfield, Illinois, he probably would be willing to terminate all connections with the national bank if he were tendered appointment as a Class C Director of the Reserve Bank. In these circumstances, Mr. Evans said, the Personnel Committee would recommend (1) that Mr. Davis, President of the Federal Reserve Bank of St. Louis, be requested to ascertain whether Mr. Smith would accept appointment as a Class C Director, which would necessitate a commitment on his part not to seek or accept political or public office within the meaning of the Board's resolution of December 23, 1915, during the period of his service as a director of the Reserve Bank, and the severance of his official connection with, and sale of his stock in, the First National Bank of Pittsfield, Illinois, and (2) that, if he were willing to accept under these conditions, the appointment be tendered to him.

Upon motion by Mr. Evans, the recommendations of the Personnel Committee were approved unanimously.

Mr. Evans then referred to the understanding reached at the meeting of the Board on December 6, 1945, that, upon the appointment

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of an additional Class C Director at the St. Louis Bank, Mr. Dearmont would be appointed Chairman and Federal Reserve Agent.

In accordance with this understanding, upon motion by Mr. Evans and by unanimous vote, Mr. Dearmont was designated Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis for the year 1946, and his compensation as Chairman and Federal Reserve Agent was fixed on the uniform basis fixed for the same position at other Federal Reserve Banks, i.e., at the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to his at meetings of the board of directors, executive committee, and other committees of the board of directors.

Mr. Paulger withdrew from the meeting at this point.

Mr. Evans stated that, in accordance with the action at the meeting of the Board on February 22, 1944, establishing a staff editorial committee for the Federal Reserve Bulletin, it was understood that Mr. Thomas, as Director of the Division of Research and Statistics, would succeed Mr. Goldenweiser as a member of the staff committee. The other members of the Board were in agreement with this understanding.

Mr. Ransom said that before Chairman Eccles left for the West he had signed a letter to Mr. Ruml, Chairman of the Federal Reserve Bank of New York, setting forth the Board's position with respect to the arrangement under which John H. Williams now serves as Vice President of the Bank on a part-time basis, and had left the letter with Mr. Thurston to be cleared with him (Mr. Ransom) who felt that it

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should be considered by the Board.

The matter was considered in the light of the informal discussions which the members of the Board had had regarding it and of Chairman Eccles' conversations with Mr. Ruml and Mr. Sproul, President of the New York Bank. In view of the fact that it was understood that Mr. Ruml, while agreeing that the present part-time arrangement with Mr. Williams should be discontinued, had suggested that a decision on whether the letter should be sent be deferred until after a contemplated conference between Messrs. Eccles, Ruml, and Sproul, following Chairman Eccles' return from the West, it was the opinion of the members present that no action by the Board was called for with respect to the letter at this time.

At this point Messrs. Leonard, Vest, Cagle, and Wyatt withdrew from the meeting.

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 December 29, 1945, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 2, 1946, were approved and the actions recorded therein were ratified unanimously.

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Mr. Carpenter reported that the Comptroller of the Currency today issued a call on all national banks for reports of condition as of the close of business December 31, 1945, and that, in accordance with the usual practice, a call was made today on behalf of the Board of Governors of the Federal Reserve System on all State member banks for reports of condition as of the same date.

The call made on behalf of the Board was approved unanimously.

Letters to "The Bank of Russell County," Cleveland, Virginia, the "American Bank," St. Joseph, Tennessee, "The Sabina Bank," Sabina, Ohio, the "First State Bank of Stevensville Montana," Stevensville, Montana, "The First State Bank & Trust Company of Lufkin," Lufkin, Texas, and the "Skagit Valley State Bank," Sedro Woolley, Washington, reading as follows:

"The Board is glad to learn that you have completed all arrangements for the admission of your bank to membership in 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 to the Presidents of all Federal Reserve Banks, reading as follows:

"Referring to the Board's letter of October 31, 1945, the Functional Expense Manual has been revised and a copy thereof is enclosed for your head office and each branch, if any. Additional copies are being forwarded under separate cover. It will be noted that the revised instructions



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"are to become effective January 1, 1946.

"Representatives of the Treasury Department have advised informally that the information requested on pages 89-98 of the Manual with respect to Treasury Issues and U. S. Savings Bonds is satisfactory to them and that it will not be necessary for the Reserve Banks to submit reports on Form PD 408 A.

"The Functional Expense Report is being reprinted and a supply will be sent to your Bank as soon as received. It is requested that three reports be submitted for the calendar year 1946: the first to be submitted at the end of March covering the period from January to March, inclusive; the second to be submitted at the end of June covering the period from January to June, inclusive; and the third to be submitted at the end of December covering the entire year. For subsequent years only two reports are to be submitted: the first at the end of June covering the first six months of the year, and the second at the end of December covering the entire year."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks,

reading as follows:

"There is enclosed a copy of Form F. R. 95 showing changes made for the 1946 edition. Form F. R. 96a will be eliminated beginning January 1946, and you will note that the data now shown on the reverse side of Form F. R. 96a will be printed on the reverse side of Form 95. Form 96 will not be revised at this time.

"A supply of Form F. R. 95 and Form F. R. 96 will be sent as soon as possible together with the revised pages of the Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks,

reading as follows:

"Under date of October 31, 1945, the Board transmitted to the Secretary of the Treasury a copy of a letter from

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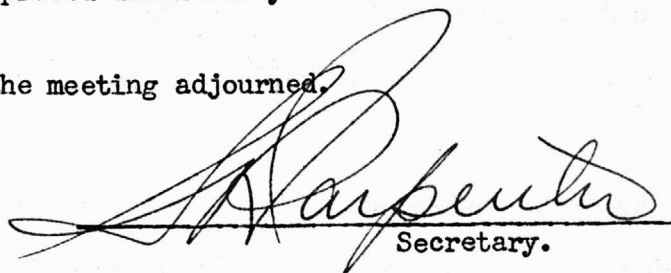
"Mr. Robert V. Fleming of the Federal Advisory Council, recommending the termination of the present procedure for the licensing of member banks; and the Board endorsed the recommendation.

"After consideration of this matter, the Treasury has issued a general license authorizing the transaction of normal banking business by national banks hereafter authorized to begin business by the Comptroller of the Currency and by State banks hereafter admitted to membership in the Federal Reserve System. For your information, there are enclosed a copy of the general license and of a letter from Mr. D. W. Bell, Acting Secretary of the Treasury, both dated December 31, 1945, which were received by the Board today.

"If there should be any further developments in connection with this matter, we shall advise you."

Approved unanimously.

Thereupon the meeting adjourned.

  
Secretary.

Approved:

  
Vice Chairman.