A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 15, 1946, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 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 February 14, 1946, were approved unanimously.

Telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Secretary of the Federal Reserve Bank of New York, Messrs. Leach and McLarin, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Caldwell, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis on February 12, by the Federal Reserve Banks of Atlanta and San Francisco on February 13, by the Federal Reserve Banks of New York, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 14, 1946, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated February 12, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the salary of Miss Wilellyn Morelle, an Economist in that Division, be increased from $2,650 to $2,980 per annum, effective as of the beginning of the first payroll period following approval by the Board.

Approved unanimously, effective February 24, 1946.

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

"This is in reply to your letter of January 25, 1946, suggesting that the Board's authorization for payment of dismissal wages or separation allowances be broadened to cover employees 55 years of age or older who are involuntarily separated from service of a Reserve Bank who are entitled to a retirement allowance, having had 10 years or more of service, but who have not had the 25 years of service required for the supplemental payment authorized under the Board's letter S-741.

"The Board is requesting the views of the Presidents Conference on such a general authorization.

"In view, however, of the circumstances in the individual case referred to in your letter and which had been discussed informally with the Board's Division of Personnel Administration, the Board authorizes your Bank to pay a dismissal wage or separation allowance of not exceeding six months' salary to Mr. Schumacher."

Approved unanimously, together with a letter to Mr. Sproul, Vice Chairman of the Presidents' Conference, reading as follows:

"In a letter dated January 25, 1946, Mr. Douglas, Vice President of the Federal Reserve Bank of New York, suggested that the Board's authorization for payment of dismissal wages or separation allowances in cases of involuntary separation be broadened to cover employees who are 55 years of age and who have 10 years or more but less than 25 years of service.

"The present authorization contained in the Board's letter of December 11, 1943, S-714, was issued in order that the Reserve Banks might deal with cases of involuntary separations which might arise pending consideration of recommendations from the Presidents Conference regarding the payment of dismissal wages or of supplemental payments to the Retirement System for the benefit of employees retiring after age 55.

"The authorization contained in the Board's letter of March 17, 1944, S-741, for supplemental payments to the Retirement System in cases of involuntary termination of service of members after age 55 and completion of 25 years of service, was issued in accordance with the recommendation of the Conference of Presidents.

"Attached is a proposed general letter to supersede the Board's letter S-714 and which would extend the authorization to pay dismissal wages or separation allowances to cases of involuntary separations of employees who have reached age 55 and who have had 10 or more years of service.

"The Board has not yet considered the proposal and before reaching a decision as to the proposed letter would appreciate receiving the views of the Presidents as to the suggested changes."

Letter to Mr. Brainard, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the request contained in your letter of February 7, 1946, the Board of Governors approves, effective February 16, 1946, the appointment of Mr. Karl P. Wendt as Alternate Assistant Federal Reserve Agent at his present salary of $3,750 per annum, to succeed Miss Anne Erste.

"This approval is given with the understanding that Mr. Wendt will be placed upon the Federal Reserve Agent's pay roll and will be solely responsible to him or, during a vacancy in the office of the Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may, with the approval of the Federal Reserve Agent or, during a vacancy in the office of the Federal Reserve Agent, of the Assistant Federal Reserve Agent, and the President, perform such work for the Bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent.

"Mr. Wendt should execute the usual oath of office, which should be forwarded to the Board of Governors."

Approved unanimously.

Letter to Mr. Fulton, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your letter of February 9, 1946, submitting for the consideration of the Board of Governors the proposal of The Cleveland Trust Company, Cleveland, Ohio, to purchase acceptable assets and assume the deposit liabilities of the First National Bank in Painesville, Painesville, Ohio, the business assumed to be serviced by the branch now operated by The Cleveland Trust Company in Painesville.

"It appears that the proposed transaction will not result in any change in the general character of the assets of The Cleveland Trust Company nor broadening of the functions now exercised by it and the Board will interpose "no objection to its completion as proposed."

Approved unanimously.

Letter to "The Okemah National Bank," Okemah, Oklahoma, reading as follows:

"This refers to the resolution adopted on May 14, 1945, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such à certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act, except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Dawes, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of February 7, 1946, regarding two questions presented by the Chicago Stock Exchange under Regulation T.

"In the first question broker-dealer A sells certain securities to broker-dealer B, and A wishes to know what provisions of Regulation T apply to these financial relations with B.

"Section 4(f)(3) provides that subject to certain conditions regarding delivery and payment, a broker or dealer may 'purchase any security from any customer who is a broker or dealer, or sell any security to any such customer'. Presumably, the conditions of payment and delivery are met in this case. The Chicago Stock Exchange feels, however, that 4(f)(3) is unavailable if A is acting as agent for a customer rather than selling the security for his own account (or if B is acting as agent rather than for his own account). Since it would be difficult to separate such 'agent' transactions from 'principal' transactions, such an interpretation would, in practice, exclude most inter-broker-dealer transactions from the section. The Exchange, therefore, assumes that the transaction must fall under section 4(c), and it inquires as to the application of certain features of the latter section.

"It is the view of the Board, however, that if the conditions of payment and delivery are met, the transaction may be effected under 4(f)(3) even though A or B, or both, are acting as agents for customers rather than as principal. Hence, it is not necessary to consider the question raised as to the application of 4(c).

"The second question relates to purchases and sales of unissued securities by customers who are not brokers or dealers. Several different phases of the question are presented. All involve the question of when an unissued security has been 'paid for in full' as specified in section 4(c)(8).

"In the first case under this question, the customer pays for the unissued security and then sells it before final settlement. The broker-dealer wishes to remit to the customer the amount paid on the purchase less any contingent loss incurred on the transaction. The question is asked whether this remittance -- if made before final settlement -- would mean that the security had not been 'paid for in full' before it was sold, and thus would disqualify the customer for a 90-day period under section 4(c)(8). The answer is that it would not disqualify him.

"The next case is the same as the previous one except that the question is asked whether, when the security goes regular, the broker-dealer must again obtain payment from the customer, and whether the broker-dealer may settle on balance. The answer is that the broker-dealer does not have to obtain payment from the customer again when the security goes regular, and he may settle on balance.

"The third case raises the question of whether the effective interest and accrued dividends on unissued securities -- which often cannot be known until some time in the future -- must be paid in order for the security to have been 'paid for in full' within the meaning of section 4(c)(8). The answer is that the requirement of full payment under 4(c)(8) does not require these uncertain sums to be taken into account."

Approved unanimously.

Letter prepared for the signature of Chairman Eccles to Mr. Bailey, Assistant Director, Legislative Reference, Executive Office of the President, Bureau of the Budget, reading as follows:

"This is in reply to your letter of January 23 enclosing a draft of a proposed reply by the Secretary of the Treasury to a request for the Department's views on S. 1334, 'To provide for the establishment of a Bank of the United States, and for other purposes.'

"In general, the proposed reply, which is returned herewith as requested, seems to us to cover the situation very well. On previous occasions the Board has indicated its views regarding bills of this general character and concerning the limitations and objectives of monetary policy. These views, which are set out in the enclosed pamphlet 'Monetary Measures and Objectives', indicate the chief reasons for the Board's opposition to the present bill. The Board also concurs fully in the criticisms in the proposed reply regarding the organizational and administrative aspects of the bank that would be established by the bill.

"We doubt the advisability of suggesting, in connection with this particular bill, a comprehensive inquiry of the kind mentioned in the last sentence of the proposed reply. Hence we suggest that the following be substituted

2/15/46

"for the last sentence of the proposed reply: 'They also indicate why it is believed that this far-reaching and drastic bill would not contribute to the economic welfare of the nation.'

"We would also suggest that consideration be given to the following changes, which relate chiefly to form rather than to substance:

"(1) In the fourth from the bottom line on page 1, change 'control by' to 'coordination with'.

"(2) At the top of page 2, leave out the phrase 'the Federal Reserve Banks are not owned by the Government' and substitute the following: 'the capital of the Federal Reserve Banks has been contributed by the member banks and that only the surplus would accrue to the Treasury in the event of liquidation.'

"(3) In the last sentence of the next to the last paragraph, change 'a central bank' to 'such an institution'."

Approved unanimously.

Thereupon the meeting adjourned.

S R Carpenter
Secretary.

Approved: M S Eccles
Chairman.