A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 27, 1946, at 10:30 a.m.

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

Mr. Carpenter, Secretary
Mr. Connell, General Assistant, Office of the Secretary
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 March 26, 1946, were approved unanimously.

Memorandum dated March 26, 1946, from Mr. Smead, Director of the Division of Bank Operations, recommending that Mr. Connell, who had been assigned on a temporary basis to the Secretary's Office since June 1945, be retransferred to the Division of Bank Operations effective as of April 1, 1946, to fill a position in which he will handle matters relating to the operations of the Federal Reserve Banks.

Approved unanimously.

Memorandum dated March 25, 1946, from Mr. Carpenter recommending (1) that the basic annual salary of each of the following employees in the Office of the Secretary be increased, as indicated below, effective as of the beginning of the pay roll period following approval by the
Board, and (2) that the temporary appointments of the three employees first named be made permanent, effective as of the same date:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Salary Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myrtle J. Pagenkopf</td>
<td>File Clerk</td>
<td>$1,836 – $1,968</td>
</tr>
<tr>
<td>Nancy R. Paterson</td>
<td>File Clerk</td>
<td>1,704 – 1,836</td>
</tr>
<tr>
<td>Maxine T. Townsend</td>
<td>File Clerk</td>
<td>1,836 – 1,968</td>
</tr>
<tr>
<td>Frances K. Allred</td>
<td>File Clerk</td>
<td>2,040 – 2,172</td>
</tr>
<tr>
<td>Loretta D. Beale</td>
<td>File Clerk</td>
<td>2,100 – 2,232</td>
</tr>
<tr>
<td>Lillie B. Brow</td>
<td>File Clerk</td>
<td>2,166 – 2,298</td>
</tr>
<tr>
<td>Helen A. Haltigan</td>
<td>File Clerk</td>
<td>2,166 – 2,298</td>
</tr>
<tr>
<td>Elizabeth M. Jones</td>
<td>Supervisor</td>
<td>2,430 – 2,540</td>
</tr>
<tr>
<td>Frances S. Fitzgerald</td>
<td>General Assistant</td>
<td>3,640 – 3,750</td>
</tr>
</tbody>
</table>

Approved unanimously, effective April 7, 1946.

Memorandum dated March 22, 1946, from Mr. Nelson, Assistant Director of the Division of Administrative Services, recommending, for the reasons stated therein, the discontinuance of the sale of cigarettes in the cafeteria and the installation by the G. B. Macke Corporation of vending machines for the sale of cigarettes. The memorandum stated that the Macke Corporation would install the machines for a trial period of 60 days and if they proved satisfactory at the expiration of that time, the Corporation would desire to enter into an agreement with the Board for the right to the exclusive sale of cigarettes in the Board's cafeteria.

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, prepared in accordance with the action taken at the meeting of the Board on March 15, 1946, and reading as follows:

"This letter is in reply to yours of February 8, 1946, relating to a proposed contribution of $10,000 by your Bank
"to the Beekman-Downtown hospital building fund.

"The Board of Governors appreciates the considerations set forth in your letter which prompted the suggested contribution and the position of your Bank in the event the contribution is not made, particularly in view of the fact that it would be contemplated that the Bank would use the services of the new institution much as you have used the facilities that have been available in the past. Because of this situation, the Board has carefully considered the matter on the basis of the policy set forth in its letter of January 16, 1945, S-826.

"It is the Board's understanding from the information that has been furnished that the contribution would not entitle your Bank or its employees to any special benefits or privileges when the hospital is placed in operation and that the fees charged the Bank would be the same whether the contribution was made or not. It is also understood that none of the Government offices located in downtown New York have been asked for a contribution and that they have made none.

"While the services that the hospital would render to your Bank make the decision a more difficult one, the Board can not escape the conclusion that the contribution would be essentially for a purpose of local community welfare and not for a purpose directly related to the conduct of the affairs of the Bank, and that for that reason the contribution should not be made. In reaching this decision, the Board had in mind that if the contribution is not made your Bank will be in the same position as the Government offices located in the New York downtown area, and in view of the special relationship between the Federal Reserve Banks and the Government and the Government's residual interest in the surplus funds of the Federal Reserve Banks under the provisions of section 7 of the Federal Reserve Act, the Board is of the opinion that this is an important if not a controlling factor in this particular case.

"The Board has asked me to say that it regrets the necessity of this decision because of the peculiar circumstances which were so ably set forth in your letter, but in view of all the considerations involved it felt that there was no other action that it should take."

Approved unanimously.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:
"Reference is made to your letter of March 22, 1946, regarding the purchase of assets and assumption of deposit liabilities of the Annapolis Savings Institution, Annapolis, Maryland, by the County Trust Company of Maryland, Cambridge, Maryland, effected February 14, 1946.

"In view of the information submitted, the Board of Governors concurs in your opinion that the transaction did not involve a change in the general character of the business of the member bank nor in the scope of the corporate powers exercised by it, within the meaning of condition of membership numbered 1 to which the member bank is subject."

Approved unanimously.

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

"In its letter of May 19, 1945, the Board advised you of the invitation from the Attorney General to submit proposals for State legislation to be included in the program of the Council of State Governments for 1946. After reviewing the situation in the light of the replies received from the Federal Reserve Banks to this letter, the Board, in September 1945, advised the Attorney General that it had reached the conclusion that there were no proposals for State legislation which it cared to submit on behalf of the Federal Reserve System at that time for inclusion in the program of State legislation of the Council of State Governments for 1946.

"Again this year the Attorney General has asked the Board to submit any proposals it desires in connection with the new program which is now being prepared for presentation in 1947. The Attorney General points out that the legislatures of 44 States will meet in regular session after January 1, 1947, and that the program will be brought to the attention of all the States through the Council of State Governments in the autumn of 1946 to permit advance study by interim committees and other State and local groups in anticipation of the 1947 legislative sessions.

"In the circumstances, it will be appreciated if, after consultation with your Counsel, you will advise the Board at your early convenience whether there are any proposals for State legislation which you wish to suggest for submission on behalf of the Federal Reserve System."

Approved unanimously.
Letter to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of December 11, 1945, and the stated enclosures, relative to the position taken by the management of the Trust Company of Georgia as to certain comments contained in the latest report of examination of the trust department of that bank and raising a question as to the application of section 11 of Regulation F to that institution in connection with the operation of its common trust fund.

"The Board agrees that section 11(a) of the regulation sets out a general principle of trust administration which it is desirable for all fiduciary banks to observe and, as you know, it is the policy of the Board, as set out in Regulation H, to require all State banks now coming into the Federal Reserve System to agree to a condition of membership embodying this principle. In order to obtain the benefits of the Federal tax exemption for a common trust fund, it is necessary for a bank to conform to the provisions of the Board's regulations 'pertaining to the collective investment of trust funds by national banks'. These requirements are set forth in section 17 of the Board's Regulation F, and it will be observed that subsection (c) authorizes investments in common trust funds 'subject to all other provisions of this regulation except subsections (b) and (d) of this section'. Among such 'other provisions of this regulation' are those of section 11(a) and, accordingly, a bank, either national or State, must conform with its provisions in order to comply with the Board's regulations pertaining to the collective investment of trust funds.

"You indicate that Mr. Strickland's comments relative to the examiner's discussion of the trust department's policies and practices in purchasing or holding stock of the trust company and corporations closely related to the trust company through interlocking directors or stock ownership raised questions as to the duties and responsibilities of the trust examiner, and you request the opinion of the Board whether your approach in making the examination was improper.

"The report of examination of a trust department of a State member bank is made for the use of the Board of Governors and the Federal Reserve Bank in the discharge of their supervisory responsibilities. A copy of the report is furnished to the bank examined for its confidential use. Accordingly, the Board feels that the report should set forth the pertinent facts relative to any departure from generally
"accepted principles and practices of trust administration with respect to investing trust funds in stock of the trust company or organizations in which the trust company or its directors and officers have substantial interests or other large concentrations. The extent to which statements of facts should be detailed or repeated, and comments or conclusions should be expressed by the examiner must, of course, depend to a considerable extent upon the various facts and circumstances in a particular case. In presenting the facts and conclusions, the examiner should bear in mind the fact that potential liability may not result in any actual liability.

"The Board feels that any statement in the open section of the report by the examiner indicating potential liability with respect to a given transaction or a group of transactions should be accompanied by a sufficiently detailed statement of the facts and circumstances under which the decisions of the trust company were reached, or other actions were taken to protect itself against surcharge in the future. For instance, if the trust company submits to the beneficiaries of its trusts and to the courts annual accountings which fully set forth all of the pertinent facts as to investments acquired, and sold or held, and obtains their approval of such accountings, or if the trust company obtains specific directions from trustors or beneficiaries as to future investments or written approvals of investments made in the past, the probability of surcharge ordinarily would be considerably lessened if not entirely eliminated. The extent to which the trust company made full use of the collective judgment of its trust personnel and made adequate records of its actions in such matters may have an important bearing. We assume, of course, that the trust company is fully aware of these and other steps which might be taken for their own protection. It is felt that neither the report nor Mr. Strickland's letter is sufficiently specific in this regard.

"These matters were discussed at some length with President McLarin when he was in Washington during the recent conference of presidents, and appropriate members of the Board's staff will be glad to discuss the contents of the report more fully with you and your trust examiner at your convenience."

Approved unanimously.

Memorandum dated March 25, 1946, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the Board
approve payment to the Pullman Company for the cost of four seats to Philadelphia on March 11, 1946. The memorandum stated that this charge needed special consideration by the Board as Mr. Morse, Assistant Director of the Division of Research and Statistics, had purchased drawing room accommodations for the use of four employees in connection with official travel but, owing to the illness of one of the party, the drawing room was occupied by only three persons.

Approved unanimously.

Memorandum dated February 26, 1946, from Mr. Hooff, Assistant Counsel, recommending that there be published in the April issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Limitation on Claims Connected with Government Checks
Foreign Funds Control
Treasury Department Releases

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Secretary.

Vice Chairman.