

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, April 11, 1947. The Board met in the Board Room at 10:35 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Draper
 Mr. Evans
 Mr. Vardaman
 Mr. Clayton

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Thurston, Assistant to the Chairman
 Mr. Smead, Director of the Division of Bank Operations
 Mr. Parry, Director of the Division of Security Loans
 Mr. Thomas, Director of the Division of Research and Statistics
 Mr. Vest, General Counsel
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Millard, Assistant Director of the Division of Examinations
 Mr. Brown, Assistant Director of the Division of Security Loans
 Mr. Young, Assistant Director of the Division of Research and Statistics
 Mr. Townsend, Assistant General Counsel
 Mr. Solomon, Assistant Counsel
 Mr. Chase, Assistant Counsel

There were presented telegrams to Mr. Whittemore, President of the Federal Reserve Bank of Boston; Mr. Blair, Secretary of the Federal Reserve Bank of Cleveland; Mr. Leach, President of the Federal Reserve Bank of Richmond; 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. Johns, Secretary of the

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Federal Reserve Bank of Kansas City; Mr. Gilbert, President of the Federal Reserve Bank of Dallas; and Mr. Volberg, 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 San Francisco on April 9, by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 10, 1947, and by the Federal Reserve Bank of Boston today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum prepared by Mr. Parry under date of April 4, 1947, transmitting a draft of a statement on consumer credit legislation, and to a draft of a proposed bill prepared by Mr. Solomon which would make permanent the authority of the Board to regulate consumer credit. It was understood that the members of the Board should study the drafts and submit any suggestions that they might have as to changes that might be made.

Chairman Eccles said that the statement to accompany the bill was more important than the bill itself for the reason that the essential thing was to get Congress to consider the legislation and to get it introduced, and that, therefore, the statement should discuss effectively the philosophy of the bill and the place that consumer credit regulation might occupy in the economy as a stabi-

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lizing force. He also said that in a recent report the Council of Economic Advisers recommended to the President that the authority of the Board with respect to consumer credit be made permanent and that at a meeting at the White House on April 9 the report was read and, at the President's request, he discussed the credit and monetary aspects of the existing inflationary situation and outlined the reasons why there was very little that the System could do in the credit field to counteract inflationary conditions except through the field of selective credit controls which were limited in their application. He reviewed, he said, the extent to which the Board had been able to regulate the use of credit for the purpose of purchasing or carrying listed securities and stated that those in attendance (including the three members of the Council of Economic Advisers, the Director of the Budget, the members of the Cabinet except that Secretary of State Marshall was represented by Under Secretary Acheson and Secretary of War Patterson was represented by Under Secretary Royall, and Messrs. Steelman, Ross and other members of the White House staff) felt that the results obtained were very satisfactory and that it was unfortunate that there were no effective controls of a similar character in the field of commodities. Chairman Eccles went on to say that he had explained the present situation with respect to the consumer credit controls and why, if legislation were not enacted, it would be necessary to

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revoke the executive order on which Regulation W, Consumer Credit, was based, that the President expressed the opinion that Congress should be requested to pass the necessary legislation to make the authority permanent and asked what he could do, and that he (Chairman Eccles) replied that he would give the matter some thought and make suggestions as to what might be done. Since the meeting, he said, the thought had occurred to him that the President might write a letter to the Board in which he would state that as part of the anti-inflationary program and as a stabilizing measure and for reasons which would be outlined in the letter, the Board should have permanent authority to regulate consumer credit, that the Council of Economic Advisers had recommended to him that the authority be made permanent, and that he was in full agreement with that recommendation.

There was a discussion of the use that might be made of such a letter and whether a more effective approach would be for the President to state his position at a press conference. No conclusions were reached as to the best procedure to be followed and it was understood that the matter would be given further consideration.

Messrs. Parry, Brown, Solomon, and Chase left the meeting at this point.

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Mr. Evans stated that, as requested by the Board at its meeting on April 8, the Personnel Committee had studied the Dallas labor matter carefully and had reached the conclusion that no action should be taken by the Board at this time to bring about the reinstatement of the two former employees of the Dallas Bank, Messrs. Clouse and Terry, who had been considered by the investigator of the regional office of the National Labor Relations Board to have been discharged partly because of their union activities. It would be understood, he said, that if advice were received from the National Labor Relations Board that it would call a formal hearing in the matter, the Board would then consider whether steps to reinstate the two former employees should be taken.

Mr. Evans made the further statement that the Personnel Committee also had considered the general question of personnel administration at the Dallas Bank, that it had concluded that steps should be taken promptly to improve the situation, that Mr. Parten, Chairman of the Dallas Bank, had indicated a feeling at various times that administration of personnel by the Bank was not satisfactory, and that there seemed to be some difference of opinion between Mr. Parten and President Gilbert as to the steps to be taken. To meet this situation, Mr. Evans said, the Personnel Committee now proposed that the Board communicate with Mr. Parten by telephone to ascertain (1) what developments in the official

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supervision of personnel had taken place at the Dallas Bank recently, and (2) whether a letter from the Board at this time discussing the matter would assist him in accomplishing needed changes.

In discussing the matter, Mr. Evans stated that when Mr. Parten was here several days ago he expressed the opinion that the Bank should have a senior officer who would give his full time to personnel work and would attend meetings with the board of directors so that the directors could have first-hand impressions of how the personnel work was being handled. There was agreement on the part of the members present with a suggestion made by Mr. Clayton that it would be undesirable to set up an arrangement under which the personnel officer would be expected to report directly to the board of directors rather than through the President who, as chief executive officer, had responsibility for operating the Bank, that in any conversations with Mr. Parten that point should be made clear, and that an arrangement similar to the one in effect at the Federal Reserve Bank of Philadelphia where the vice president in charge of personnel reports to the President would be a satisfactory one.

Upon motion by Mr. Evans, it was agreed unanimously that no action would be taken by the Board at this time to bring about the reinstatement of the two former employees of the Dallas Bank, and that the Personnel Committee would get in touch with Mr. Parten by telephone to discuss the question of personnel administration at the Bank along the lines indicated at this meeting.

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Mr. Young left the meeting at this point.

Chairman Eccles said he had just been advised that Mr. Robert M. Hanes, Chairman, Post-War Small Business Credit Commission of the American Bankers Association, had attended the meeting of the executive committee of the Association of State Bank Supervisors being held in Washington and had made a statement against the bill introduced in the Senate (S. 408) which would give the Federal Reserve Banks authority to guarantee business loans. There was agreement on the part of the members of the Board that Chairman Eccles should undertake to ascertain what had occurred and see what could be done to get the Board's position on the bill before the executive committee. He left the meeting for that purpose and upon his return stated that he had talked with Mr. Hospelhorn, Chairman of the executive committee, who advised that the Federal Deposit Insurance Corporation had arranged a joint meeting of the executive committee of the Association and the supervising examiners of the Corporation and that Mr. Hanes had spoken at that meeting on invitation of the Corporation. Chairman Eccles added that it had been arranged for him to speak to the executive committee at 2:30 p.m. this afternoon and that the committee did not expect to take any action with respect to the bill.

Mr. Nelson stated that informal proposals for officers' salaries at the Federal Reserve Banks of Philadelphia and Cleveland for the year commencing May 1, 1947, had been received. There was

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an informal discussion of these proposals, during which the question was raised whether the two Banks should continue the employment of outside counsel. It was pointed out that they were the only Federal Reserve Banks which did not have inside counsel, that the considerations which had caused the Board to agree to the retention of outside counsel by these Banks were no longer sufficient to justify continuing the arrangements, and that they should be terminated.

It was agreed unanimously that at the time formal approval was given to officers' salaries at the Federal Reserve Banks of Philadelphia and Cleveland for the year beginning May 1, 1947, the Banks should be advised that the payment of retainer fees to counsel for those two Banks was approved for the ensuing year with the understanding that the Board would not expect to approve the payment of fees to outside counsel after May 1, 1948, and that the Banks would take steps to employ inside counsel by that date.

Reference was made to a letter received from Mr. Earhart, President of the Federal Reserve Bank of San Francisco, transmitting a list of officers' salaries as fixed by the board of directors of that Bank for the year beginning May 1, 1947, and Mr. Evans stated that the increases proposed were modest in number and amount, and that with the exception of the increase proposed for Mr. Partner, Vice President in charge of the Salt Lake City Branch, the Personnel Committee recommended that they be approved. He also said that the Committee saw no objection to the increase proposed for Mr.

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Partner, but thought it should be considered by the Board.

After a discussion, upon motion by Mr. Evans, the following letter to Mr. Earhart, President of the Federal Reserve Bank of San Francisco, which would approve all of the salary increases recommended by the Bank, was approved unanimously:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of San Francisco and its Branches for the period May 1, 1947, through April 30, 1948, at the rates indicated, which are the rates fixed by the board of directors as reported in your letter of March 26, 1947:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
C. E. Earhart	President	\$25,000
H. N. Mangels	First Vice President	16,000
J. M. Leisner	Vice President and Cashier	10,000
H. F. Slade	Vice President	11,000
W. F. Volberg	Vice President	10,000
O. P. Wheeler	Vice President	10,000
R. T. Hardy	Assistant Vice President	7,500
E. C. Mailliard	Assistant Vice President	7,300
J. M. Osmer	Assistant Vice President	8,000
Ronald T. Symms	Assistant Vice President	7,500
H. Armstrong	Assistant Cashier	7,000
T. W. Barrett	Assistant Cashier	5,500
R. C. Milliken	Assistant Cashier	5,500
J. A. Randall	Assistant Cashier	7,000
F. H. Holman	General Auditor	10,500
Albert C. Agnew	General Counsel	16,000
John A. O'Kane	Assistant General Counsel	7,500
<u>Los Angeles Branch</u>		
W. N. Ambrose	Vice President and Manager	13,000
Fred C. Bold	Assistant Manager	10,000
E. R. Barglebaugh	Assistant Manager	6,100
M. McRitchie	Assistant Manager	7,000
L. C. Meyer	Assistant Manager	7,000
C. H. Watkins	Assistant Manager	7,000

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<u>"Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Portland Branch</u>		
D. L. Davis	Vice President and Manager	\$12,000
S. A. MacEachron	Assistant Manager	8,000
D. E. Bent	Assistant Manager	6,300
J. P. Blanchard	Assistant Manager	5,500
<u>Salt Lake City Branch</u>		
W. L. Partner	Vice President and Manager	11,000
R. E. Everson	Assistant Manager	7,500
O. H. Barnard	Assistant Manager	5,300
W. M. Scott	Assistant Manager	5,600
<u>Seattle Branch</u>		
C. R. Shaw	Vice President and Manager	12,000
B. A. Russell	Assistant Manager	7,000
R. H. Morrill	Assistant Manager	6,500
D. E. Simms	Assistant Manager	6,300"

Mr. Carpenter stated that there had been some difference of understanding as to the action taken at the meeting on March 20, 1947, with respect to the possible appointment of Mr. Edward R. Stettinius, Jr., as a Class C director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1949, and that the matter had been placed on the docket for this meeting to determine whether the appointment should be tendered to Mr. Stettinius with the understanding that, if he accepted the appointment, he would be designated Chairman and Federal Reserve Agent at the beginning of 1948 or at the beginning of 1949.

Chairman Eccles said he had understood that he was to talk with Mr. Stettinius and find out whether he would be willing to accept an appointment as a Class C director, if tendered by the

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Board, with the understanding that he would be designated as Chairman and Federal Reserve Agent at the end of this year or next, depending upon the arrangements worked out with Mr. Wysor, who had been designated Chairman and Federal Reserve Agent for the year 1947, and whose term as a Class C director would expire December 31, 1948.

After a discussion, it was agreed unanimously that Chairman Eccles should talk with Mr. Stettinius and ascertain whether he would be willing to accept appointment as a Class C director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1949, if tendered by the Board. It was understood that Chairman Eccles would say to Mr. Stettinius that the Board would talk with Mr. Wysor, and it would be worked out so that if Mr. Stettinius accepted the appointment he would be designated as Chairman and Federal Reserve Agent beginning January 1, 1948, or January 1, 1949. It was also understood that Chairman Eccles would ascertain whether Mr. Stettinius' activities would be such that he would be available to attend regularly the monthly meetings of the board of directors and the meetings of the executive committee (which are held on call about once a month), and that the Board of Governors would not be willing to make the appointment unless he could attend meetings regularly.

Reference was made to a memorandum relating to outside business connections of officers of Federal Reserve Banks prepared by Mr. Millard under date of March 24, 1947, pursuant to action taken

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at the meeting of the Board on March 14, 1947. The memorandum listed existing connections which indicated that one or more officers at nearly every Federal Reserve Bank was engaged in some outside business activity for which he received compensation, and that a substantial proportion of such connections were teaching activities.

There was a discussion of the problems which arose when Federal Reserve Bank officers engaged in outside business activities for compensation, and it was agreed unanimously that this matter should be placed on the agenda for the next Presidents' Conference.

Mr. Millard left the meeting at this point.

Reference was made to a memorandum prepared by Mr. Smead under date of April 10, 1947, showing the amounts that would be paid by each Federal Reserve Bank to the Treasury if, as a means of transferring approximately 90 per cent of their earnings to the Government, the Board required the Banks to pay interest on their outstanding Federal Reserve notes not covered by gold certificates during the first quarter of 1947. A copy of the memorandum, to which were attached drafts of a telegram to the Federal Reserve Banks and a press release to be used in the event action were taken by the Board, had been sent to each member of the Board prior to this meeting.

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Mr. Smead stated that he would like to ask the Federal Reserve Banks on a confidential and informal basis to verify the computations shown in the memorandum without waiting for formal action to be taken by the Board with respect to establishing an interest rate.

There was a discussion of the matter during which Chairman Eccles stated that action by the Board to establish an interest rate on Federal Reserve notes should not be taken until after the meeting which he and Mr. Sproul were to attend at the Treasury on Friday, April 18, 1947, at which time he would try to get an agreement on a program with respect to Treasury bills. He also said that a copy of the draft of press statement had been sent to Mr. Sproul for his suggestions, and that he (Chairman Eccles) could see no objection to Mr. Smead obtaining from the Federal Reserve Banks at this time informal verification of his computations.

Upon motion by Mr. Clayton, it was agreed unanimously (1) that Chairman Eccles would be authorized to make such changes in the draft of press statement as appeared to be desirable after considering any changes in the statement that Mr. Sproul might suggest; (2) that at the meeting at the Treasury next week at which Chairman Eccles would endeavor to get agreement on a satisfactory program with respect to Treasury bills, he would be authorized to say that the Board was prepared to establish the interest rate on Federal Reserve notes for the purpose of effecting the payment to the Treasury by the Federal Reserve Banks of approximately 90 per cent of net earnings after dividends;

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and (3) that Mr. Smead should obtain informally from each Federal Reserve Bank a verification of the computations contained in his memorandum of April 10, 1947, showing the payments that would be made to the Treasury for the first quarter of 1947 if the interest rate was established.

Mr. Knapp entered the meeting at this point.

At Chairman Eccles' request, Mr. Carpenter read a letter sent to Secretary of the Treasury Snyder on March 28, 1947, by Mr. W. Randolph Burgess, Vice Chairman of the National City Bank of New York, raising certain questions concerning possible monetary reforms in the Philippines which might be recommended by the Joint Philippine-American Financial Commission. Chairman Eccles said that Mr. Burgess had sent a copy of the letter to him and that because of the Board's interest in the matter he had had a draft of letter prepared which he would like to send to the Secretary of the Treasury if it expressed the views of the Board.

The draft of letter was read and, upon motion by Mr. Clayton, was approved unanimously as follows, with the understanding that a copy would be sent to Mr. Burgess and that the Chairman would ask the Treasury to approve sending copies to the other members of the National Advisory Council:

"Randolph Burgess has sent me a copy of the letter which he addressed to you on March 26 concerning the Philippine currency program. The subject which he raises is one of those under study by the Joint Philippine-American Finance Commission, and I would prefer to reserve

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"judgment on the particular action which should be taken in the Philippine case until we have the benefit of that Commission's report. However, since I find myself in thorough disagreement with some of the implications and assumptions of Mr. Burgess' letter, I should like to express my general views on this subject. These views are shared by the Board and by the members of the Board's staff who have responsibility for these matters.

"My basic position is that usually it is inordinately expensive -- I would say extravagant -- for any foreign country to administer its currency system on a straight U. S. dollar basis, whether it uses U. S. dollars as its sole medium of circulation or issues its own currency backed 100 per cent by a U. S. dollar reserve. Not only does such a system involve locking up highly valuable foreign exchange assets which might be used productively to finance imports for development purposes. In addition it deprives the country concerned of any freedom of action in managing its domestic monetary affairs. It forces a rigid pattern of monetary policy, completely at the mercy of the flow of funds in the balance of payments, and in time of depression leaves the country concerned without effective defense against stagnation and waste of resources. Furthermore, in the specific case of the Philippines which is suffering a budgetary deficit imposed by reconstruction difficulties, it forces the country to assume burdensome external liabilities to meet purely domestic expenditure requirements.

"What are the advantages for which a country is asked to pay the price? The only one which has been advanced is that private American capital will be attracted to a country which by the nature of its currency system offers a 100 per cent guarantee that the capital may be withdrawn freely and without exchange loss. I do not question that the availability of American capital is a very real advantage, but I wonder whether the introduction of a somewhat more flexible currency system would really dissuade American capital from taking advantage of the excellent profit opportunities which exist in these undeveloped countries.

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"Indeed, in the specific Philippine case, we have already gone a long way in the direction of assuring protection for private American capital investments in the new Republic. In the Philippine Trade Act, in addition to the provision concerning equal access to the exploitation of Philippine resources by domestic and American enterprise, the Congress stipulated that no change should be made in the peso-dollar exchange rate, that the convertibility of Philippine pesos into dollars should not be suspended, and that no restrictions should be imposed on the transfer of funds from the Philippines to the United States, without the consent of the President of the United States. The Philippines have acceded to these demands in their congressional enactment of July 3, 1946, and in the Trade Agreement with the United States that went into effect on January 2, 1947. These commitments which we have already obtained from the young Republic of the Philippines may or may not be judged fair compensation for the benefits we have given the Philippines in the Trade Act and the Rehabilitation Act. In any case, there is not the slightest doubt that these commitments greatly limit Philippine freedom of action in developing and safeguarding their economy. By the same token, they give American capital extraordinary and unusual advantages. I wonder whether still further inducements are necessary and whether they would be worth the price.

"Congress did not go so far as to stipulate the perpetuation of the 100 per cent reserve system, and I do not believe that we should now take this as a premise for our thinking. I trust that the Joint Commission's report will give us an informed judgment, based upon local conditions and circumstances which cannot be appraised from this distance, as to the effects of currency reforms which might be introduced sometime in the foreseeable future. For example:

- (a) whether and to what extent such reforms would undermine public confidence in the Philippines in the currency and banking system;
- (b) the extent to which such action would precipitate a flight of capital (whether American or Philippine) from the country and the measures which might be taken to forestall such a development;
- (c) the extent to which a more flexible monetary system could contribute to sound

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- "economic development in the Philippines, if wisely administered;
- (d) the possibilities of introducing safeguards designed to forestall abuse because of possible ignorance, incompetent administration, or irresponsible exploitation.

"In short, while I am anxious to reserve judgment at the present time as to the specific Philippine case, it seems to me that when the issue arises we must give due consideration to legitimate Philippine aspirations as well as to our own business interests. We may have to recognize that our grant to the Philippines of political independence would be virtually nullified if we placed further barriers in the path of their economic self-administration. We must remember that such action might well appear in the Philippines -- and elsewhere, especially in Asiatic countries -- as an attempt to maintain a system of colonial imperialism which we publicly disavow. Indeed, I am convinced that in the long run the interests of private American capital will be best served by a broad-gauge policy which refrains from undue insistence on our narrow national interests at the expense of the independence and self-determination of foreign peoples.

"I am sending a copy of this letter to Mr. Burgess."

At this point Messrs. Smead, Thomas, Vest, Nelson, Townsend, and Knapp withdrew and the action stated with respect to each of the matters hereinafter set forth was taken by the Board:

The minutes of actions taken by the Board of Governors of the Federal Reserve System on April 10, 1947, were approved unanimously.

Memorandum dated April 7, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Miss Virginia Lambert, a stenographer in the Board Members' Offices, be transferred to the Division of Research and Statistics, with no

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change in her present basic salary of \$2,544.48 per annum, effective as of the date upon which she enters upon the performance of her duties in the Division of Research and Statistics. The memorandum also stated that Mr. Vardaman would interpose no objection to Miss Lambert's transfer.

Approved unanimously.

Memorandum dated April 8, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Hans J. Dernburg, an economic specialist in that Division, be accepted to be effective, in accordance with his request, at the close of business April 13, 1947, with the understanding that a lump sum payment would be made for annual leave remaining to his credit as of that date.

Approved unanimously.

Memorandum dated April 7, 1947, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that the resignation of Mrs. Margaret M. Aburrow, secretary to Mr. Thomas, be accepted, in accordance with her request, at the close of business April 7, 1947.

Approved unanimously.

Memorandum dated April 8, 1947, from Mr. Parry, Director of the Division of Security Loans, recommending that increases in the basic annual salaries of the following employees in that Division be approved effective April 20, 1947:

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<u>Name</u>	<u>Designation</u>	<u>Salary Increase</u>	
		<u>From</u>	<u>To</u>
Catherine L. Schmidt	Secretary	\$3,021.00	\$3,146.40
Alice Swindlehurst	Clerk	3,021.00	3,146.40
Ruth D. Stone	Secretary	2,770.20	2,895.60
Otto H. Branic	Messenger	2,120.40	2,168.28

Approved unanimously.

Letter to Mr. Wysor, Federal Reserve Agent of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with the request contained in your letter of April 9, 1947, the Board of Governors approves the appointments of Messrs. Alfred A. Stewart, Jr. and Paul D. Gilliam as Federal Reserve Agent's Representatives at the Baltimore and Charlotte Branches, respectively, at their present salaries of \$4,080 and \$3,240 per annum, respectively.

"This approval is given with the understanding that Messrs. Stewart and Gilliam 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 Federal Reserve Agent, to the Assistant Federal Reserve Agent, and to the Board of Governors, for the proper performance of their duties. When not engaged in the performance of their duties as Federal Reserve Agent's Representatives they may, with the approval of the Federal Reserve Agent or, in his absence, of the Assistant Federal Reserve Agent, and the Vice President in charge of their respective Branches, perform such work for the Branch as will not be inconsistent with their duties as Federal Reserve Agent's Representatives.

"It is noted from your letter that Messrs. Stewart and Gilliam will execute the usual oaths of office which will be forwarded to the Board, and their appointments will become effective at that time."

Approved unanimously.

Telegram to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, reading as follows:

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"Your wire April 9 re employees' loan fund. Board has no objection to proposed use of \$15,000 of Reserve Bank funds for appropriate loans to employees. It is understood that the funds will be returned to bank, without interest, when no longer needed for such loans. It is assumed that bank will retain adequate supervision or control over the administration of the fund. If advance is made, please include in 'Sundry items receivable' on Form F. R. 34."

Approved unanimously.

Telegram to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:

"In view your recommendation Board approves increase in investment in bank premises National Savings and Trust Company, Washington, D. C., in the amount of approximately \$137,000, with the understanding that only expenditures for improvements of a permanent nature will be capitalized and that depreciation will be taken at least in amounts equal to maximum allowable for income tax purposes."

Approved unanimously.

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

"This refers to your letter of April 1 regarding nonmember banks in your District that are reported to be absorbing exchange charges.

"We appreciate the information enclosed with respect to the Guaranty Bank and Trust Company of Alexandria, Louisiana, and would like to have similar information, from whatever sources as are available to you, for the Commercial Bank and Trust Company of Jackson, Mississippi, and the Merchants and Farmers Bank, Meridian, Mississippi.

"The Board feels that before this matter is taken up with the Treasury and the Federal Deposit Insurance Corporation, it will be desirable to have fairly complete information about these situations, including recent data on the growth in interbank

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"deposits at these three banks and definite evidence that these banks are using absorption of exchange charges as an inducement to obtain and maintain accounts of other banks."

Approved unanimously.

Letter prepared for Chairman Eccles' signature to Mr. C. L. Hufsmith, President, First National Bank, Palestine, Texas, reading as follows:

"This refers to your letter of March 13 concerning the establishment of a profit policy for banks which would provide for a profitable price for each individual service.

"I have passed on to members of our staff your suggestion that the Board 'make a broad and fundamental analysis of the manner in which the banker now permits the profit element to function in his practice of demand deposit banking, and then to establish the sound and justified manner in which he should permit the profit element to function in his business'. While the Board considers this an important banking problem and is interested in its solution, it believes that any studies in this field should be sponsored by bankers' associations or similar groups representing bank stockholders, rather than by supervisory agencies."

Approved unanimously.

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

"Referring to your letter of April 4, 1947, there will be no objection to publication of the study of Regulation V loans referred to. It was not intended that the Board's letter of September 6, 1946 (S-932) should prevent the publication of such studies."

Approved unanimously.

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Letter to the Honorable Everett M. Dirksen, Chairman,
Committee on the District of Columbia, United States House of
Representatives, reading as follows:

"This refers to your letter of March 26, 1947, requesting a report on H. R. 2315, a bill 'Concerning common-trust funds and to make uniform the law with reference thereto.'

"The proposed legislation would authorize banks and trust companies in the District of Columbia to establish common trust funds, subject to such rules and regulations as may be promulgated from time to time by the Comptroller of the Currency or this Board, and to invest funds held by them as fiduciaries in interests in such common trust funds. Except for the provisions with respect to rules and regulations, the bill is identical to the Uniform Common Trust Fund Act recommended by the National Conference of Commissioners on Uniform State Laws.

"The Board is in accord with the objectives of the bill. A common trust fund is a fund maintained by a bank or trust company exclusively for the collective investment and reinvestment of monies contributed thereto by the bank or trust company in its capacity as trustee, executor, administrator, or guardian. The collective investment of funds of various trusts through common trust funds is intended to facilitate the administration of small trusts and to provide greater diversification of investments than is practicable where funds of small trusts are invested separately.

"Several years ago the Board amended its Regulation F, Trust Powers of National Banks, to permit national banks to establish common trust funds and to invest trust funds therein where such investments are authorized or permitted by the laws of the States in which the national banks are located. In establishing and operating common trust funds, national banks must conform to requirements and restrictions set out in Regulation F. Under section 169 of the Internal Revenue Code, a common trust fund maintained by any bank or trust company (State or national) in conformity with Regulation F is exempt from certain provisions of the Federal tax laws.

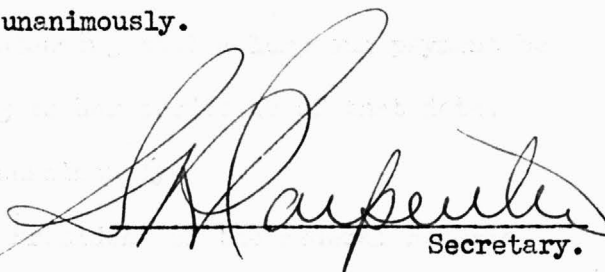
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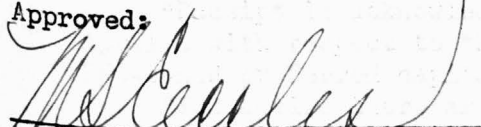
"It appears that the provisions of the bill relating to rules and regulations may result in overlapping authority, with the possibility of conflicting regulations. It is believed that the best solution would be to require compliance with the regulations which the Board now prescribes governing the operation of common trust funds by national banks and with which, in practice, all common trust funds must conform because of the tax exemption mentioned above. Accordingly, it is recommended that section 1 of the bill be amended by striking out the words 'by the Comptroller of the Currency of the United States or the Board of Governors of the Federal Reserve System' and inserting in lieu thereof the words 'by the Board of Governors of the Federal Reserve System under the provisions of section 11(k) of the Federal Reserve Act, as amended, (12 U.S.C. 248(k) pertaining to the collective investment of trust funds by national banks'.

"It also is suggested that section 3 of the bill be amended by striking out the words 'those States which enact it' and inserting in lieu thereof the words 'the District of Columbia with the law of those States which enact the Uniform Common Trust Fund Act'."

Approved unanimously.


Secretary.

Approved:


Chairman.