

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, September 30, 1947. The Board met in the Board Room at 11:30 a.m.

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

Mr. Carpenter, Secretary
 Mr. Sherman, Assistant Secretary
 Mr. Morrill, Special Adviser
 Mr. Smead, Director of the Division of Bank Operations
 Mr. Vest, General Counsel
 Mr. Nelson, Director of the Division of Personnel Administration
 Mr. Van Fossen, Assistant Director of the Division of Bank Operations

Mr. Vardaman referred to a memorandum prepared by Mr. Smead under date of September 19, 1947, pursuant to the understanding reached at the meeting of the Board and the Presidents on June 6, 1947, with respect to a possible reduction in the maximum time for deferment of credit for cash items collected through the Federal Reserve check collection system. The memorandum suggested consideration of an arrangement which would provide:

(1) That member and nonmember clearing banks that do not have a daily average of more than 200 out-of-town par items be authorized to send such items to a Federal Reserve Bank without sort of any kind for one day's deferred credit;

(2) That if a member or a nonmember clearing bank sends a daily average of more than 200 items to the Federal Reserve Bank it be required to sort such items as follows:

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- (a) Immediate credit items;
- (b) Deferred credit items for two days' deferred credit, provided, however that if a member bank wishes to sort one-day items separately it shall be given one day's deferred credit for such items.

(3) That any member or nonmember clearing bank sending to a Federal Reserve Bank for collection a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or branch (including other offices in the same district) be

- (a) Requested to route such items direct;
- (b) Advised
 - (1) that, in accordance with the provisions of Regulation J of the Board of Governors and the operating letters of the Federal Reserve Banks, if in the judgment of a Federal Reserve Bank a member or nonmember clearing bank has a sufficient volume of cash items payable in the territory of another Federal Reserve Bank or branch to justify direct routing it may decline to accept such items for collection unless they are routed direct to such other Federal Reserve Bank or branch, and
 - (2) that if a Federal Reserve Bank or branch receives from one of its own member or nonmember clearing banks a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or branch it will require such items to be sorted and listed separately.

(4) That Federal Reserve Banks continue their present efforts to speed up the collection of checks by the use of air transportation.

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The memorandum also stated that if these suggestions were adopted the daily average amount of "float" of the Federal Reserve Banks probably would be increased by around \$200,000,000 from the present average of around \$430,000,000. It also pointed out some of the reasons why the smaller banks prefer to deposit checks for collection with large commercial banks rather than with the Federal Reserve Banks and stated that so long as large commercial banks offered facilities for the collection of all checks, including non-par checks and non-cash items, and provided added inducements to obtain the accounts of small banks it would be difficult, if not impossible, for the Federal Reserve System to develop a full and complete nationwide check collection service.

Chairman Eccles stated that after further discussion and thought on the matter he had reached the conclusion that merely shortening the time for deferment of credit for cash items would not make membership in the Federal Reserve System sufficiently attractive to induce many of the smaller banks to apply for membership, and that adoption of the proposal for reducing sorting requirements and shortening deferment time would be objectionable to many of the larger city banks which would feel that it was a step toward breaking down correspondent bank relationships by offering services to smaller banks which were not available to banks having

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a large volume of items for collection. He added that in his opinion the System should be studying the entire check collection system with a view to modernizing it so as to make available to all banks, large and small, a check collection service that was efficient for the business and banking community, which would reduce accounting work at Federal Reserve and member banks through eliminating the deferred availability schedules, and which would cover all types of cash and non-cash items so that depositing banks would not be forced to collect some of their items through channels other than the Federal Reserve. He realized that such a change would require additional space, equipment, personnel and planning and could not be undertaken without considerable preparation, but he felt prompt steps should be taken to make such preparation. It was also his view that Congress intended the System to offer a check collection service that would make membership attractive and that if the proposed change were adopted under which large and small banks were treated alike there would be less objection on the part of large banks that the System was competing with them for correspondent bank business. Chairman Eccles went on to say that since giving immediate credit on all items would add a very large amount to member banks reserves, the step should not be taken during the present period of inflation but should be delayed until the action would be in harmony with System credit policies.

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There was a general discussion of steps that would be necessary in connection with the acceptance of all cash items for immediate credit during which it was pointed out that the Federal Reserve Banks should know of such a program a year or more in advance of its effective date to enable them to train personnel, obtain necessary machines, and arrange for additional space that would be required to handle the enlarged volume of work.

Mr. Vardaman stated that if immediate credit were given an important part of the benefit would be the release of working capital to business concerns and individuals who now are frequently not permitted to draw against uncollected funds. He added that while he favored the change in the deferment schedule proposed by Mr. Smead because he felt it was in the direction contemplated by the Congress and would not be competitive with the large banks, if it would be interpreted by the large banks as being discriminatory against them or in competition with them, the change might well be postponed until a survey of the entire check collection function and a program for its modernization had been completed.

Mr. Smead suggested that if that were done the proposal with respect to direct sending of cash items payable in the territory of another Federal Reserve Bank or branch should be made effective at once as a means of speeding up the presentation of items and eliminating an unnecessary duplication of work.

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It was the consensus that this change could be made promptly without raising a question of competition by the Federal Reserve Banks with commercial banks in the larger cities which actively solicit the deposit of checks by smaller banks as a means of increasing their correspondent bank balances.

In this connection, Chairman Eccles stated that there was much to be said for the position that had been taken in 1933 and 1934 by Congressman Steagall, then Chairman of the House Banking and Currency Committee, as well as by others who opposed compulsory membership for all banks in the Federal Reserve System but were not opposed to membership in the System if the Federal Reserve Banks would render services which made membership so attractive that banks voluntarily would become members. He went on to say that some of the present practices of the Federal Reserve Banks fall short of giving the services that were contemplated when the Federal Reserve System was established, and he cited as an example the case of a member bank which could not borrow from its Federal Reserve Bank against securities held by a correspondent of the member bank in New York City until the securities had been shipped to the local Federal Reserve Bank to be held as collateral, with consequent expense of shipment and delay in obtaining the credit. He suggested that the Board might require the local Federal Reserve Bank to accept a trust receipt of the correspondent bank

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holding the securities or of the Federal Reserve Bank in that district.

Messrs. Evans and Vardaman expressed the view that the Board should take steps at once to correct that situation. It was stated that the matter was on the agenda for discussion at the Presidents' Conference this week, and that if the Presidents did not propose a solution the Board could consider what action should be taken.

Following the discussion, it was agreed unanimously that Chairman Eccles would discuss with the Presidents at their meeting with the Board next week (1) what the Board had in mind with respect to a complete modernization of the Federal Reserve check collection service, and (2) the desirability of arranging with member banks that, on and after, say January 1, 1948, if a member or nonmember clearing bank sends to its Federal Reserve Bank a daily average of more than 300 items payable in the territory of another Federal Reserve Bank or branch, such items would be sorted and listed separately by the depositing bank.

It was understood that Mr. Smead would prepare a draft of statement for use by Chairman Eccles in this connection.

Reference was then made to a draft of a letter to the Presidents of all Federal Reserve Banks prepared in accordance with the discussion at the meeting on September 26, 1947, outlining a proposal for maximum allowances for travel expenses for the officers

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and employees of the Banks. The letter provided among other things that reimbursement for travel expenses would include, in addition to the transportation costs, an allowance of (a) \$10 per diem for subsistence for the President and First Vice President or actual necessary travel expenses, and (b) a maximum of \$8 per diem for subsistence for all other officers and employees.

Mr. Vardaman stated that he would be willing to approve the letter if the majority of the members of the Board favored the policy expressed in the draft but that there were two points in connection with it which he thought should have further consideration. The first was that, although it was his view that all travel allowances for Government travel and travel by representatives of the Federal Reserve Banks were too low under present conditions and should be raised substantially, the maximum per diem allowance proposed for the Presidents and First Vice Presidents was considerably higher than the allowance for official Government travel and if the matter ever came before a committee of Congress it would be the \$10 maximum rather than the \$8 maximum that would receive attention. It would appear, therefore, that for the purpose of making the larger allowance available to only 24 men the System would be losing the benefit that would accrue from the adoption of a uniform allowance of \$8 for all officers. His second point was that the adoption of the maximum allowance of \$10 recognized a difference in officers of Federal Reserve Banks and he felt that all officers, whether junior or senior, represented the Federal Re-

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serve Bank and no distinction should be made between them. For these reasons he favored the adoption of a uniform maximum per diem allowance of \$8 for all officers.

The matter was discussed and the view was expressed by the other members that the Presidents and First Vice Presidents as the chief executive officers of the Federal Reserve Banks, having contact as they do with the heads of large banking and business concerns and other top executives, would have to incur greater expenses while in a travel status than other officers of the Banks and that for that reason a somewhat higher travel allowance was justified for them and could be defended before committees of Congress. It was also felt that if a uniform maximum of \$8 were adopted for all officers of the Federal Reserve Banks the reasons which prompted that action would require a reduction in the per diem allowance for members of the Board to \$8. Mr. Vardaman felt that such a reduction would be justified in the circumstances but stated again that he felt all travel allowances should be raised substantially.

It was understood that the draft of letter would be circulated among the members of the Board for their consideration.

Mr. Carpenter asked whether December 1 and 2, 1947, would be satisfactory to the Board members as dates for a conference with the Chairmen of the Federal Reserve Banks, stating that the Chairmen had indicated they would like to have a conference in Washington at that time.

It was the unanimous view that a Conference of Chairmen should be held on December 1 and 2, 1947, and that, in accordance with the procedure followed in other recent years, the Board

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would invite the Chairmen to a dinner at some hotel on the evening of the first day of the Conference, the cost of which would be paid by the Board.

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 29, 1947, were approved unanimously.

Memorandum dated September 29, 1947, from Mr. Leonard, Director of the Division of Examinations, recommending that Harry J. Meyer, an examiner for the Federal Reserve Bank of New York, be appointed an examiner of the Board of Governors for the purpose of participating in the forthcoming examination of The Chase Bank, New York, New York, a corporation organized under section 25(a) of the Federal Reserve Act.

Approved unanimously.

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

"In accordance with the request contained in your letter of September 20, 1947, the Board of Governors approves, effective October 1, 1947, the payment of salaries to the following members of the Federal Reserve Agent's staff at the rates indicated:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Elmer F. Fricke	Alternate Assistant Federal Reserve Agent	\$4,120
Gordon M. Trowbridge	Federal Reserve Agent's Representative at Pittsburgh Branch	3,540
Harry H. Ostendorf	Federal Reserve Agent's Representative at Cincinnati Branch	4,500"

Approved unanimously.

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Telegram to Mr. William R. Wallace, Jr., 310 Sansome Street,
San Francisco, California, reading as follows:

"Board of Governors of Federal Reserve System has appointed you Class C Director of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1947, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Telegram to Mr. Fletcher, First Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Relet September 23. The Board approves establishment and operation of branch in Reading, Ohio, by The Fifth Third Union Trust Company, Cincinnati, Ohio, provided absorption of The Reading Bank, Reading, Ohio, is effected substantially as proposed; prior approval of appropriate State authorities is obtained; and with the understanding that counsel for Reserve Bank will review and satisfy himself as to the legality of all steps taken to effect the absorption and establishment of the branch."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has considered the recommendation contained in your letter of August 26, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to 'American National Bank of Jacksonville', Jacksonville, Florida, to maintain the same reserves against deposits as are required to be maintained by banks outside central reserve and reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors

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"of the Federal Reserve System."

Approved unanimously.

Letter to Mr. Thos. J. Healy, 392 Beechwood Drive, Akron 2, Ohio, reading as follows:

"This is in reply to your letter of September 18, 1947, to Chairman Eccles relative to margin requirements. It has not seemed to the Board that requirements could be further reduced under present circumstances. The statement is made frequently that the stock market is not as inflated as other sectors of our economy. If this is true, it should be a source of satisfaction that the general situation has not been made even worse than it is by stock market speculation. The Board's view is that speculation should not be encouraged by reduction of margin requirements at this very critical time.

"Considerable work has been done on proposals to apply different margin requirements to different groups of securities. While there are merits in such proposals and appropriate consideration would, of course, be given to any such suggestion that might be submitted, it has never seemed to the Board that they outweighed the disadvantages of the great complexity which would be introduced by such differentiation."

Approved unanimously.

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

"This refers to Mr. Wiltse's letter of April 9, 1947, and enclosures, and subsequent correspondence, concerning the applicability of the provisions of section 32 of the Banking Act of 1933, as amended, to the service of Mr. Samuel L. Fuller as a director of The Commercial National Bank and Trust Company of New York, while at the same time a partner in the firm of Merrill, Lynch, Pierce, Fenner & Beane (hereinafter referred to as Merrill, Lynch).

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"On the basis of the information which we have been furnished in connection with this matter, it appears that Merrill, Lynch came into existence in 1941 through the merger of several firms; that it holds itself out in its advertising as 'underwriters and distributors of investment securities'; that, as stated in its Annual Report for 1946, supplying new money for industry and aiding in the refinancing of established firms are among its 'more important activities'; that during 1946 it acted as underwriter for \$83,548,000 worth of corporate securities; that it participated as an underwriter in 131 separate issues; and that it ranked among the first 15 firms in both the amount it underwrote and in the total amount of underwritings it managed. The firm has 91 branches in 30 States and the District of Columbia, and does a tremendous amount of brokerage business. Because of the great volume of brokerage business, its aggregate gross income received from underwriting in 1946 was only 7.6 per cent of its total gross income and in the preceding five-year period its gross income from underwriting averaged 6.8 per cent. For the first six months in 1947 it was 8.5 per cent.

"As you know, the Board, in determining whether a particular firm is 'primarily engaged' in the securities business has not confined itself solely to a consideration of the percentages of income derived from such business. As stated in a letter to your bank dated November 30, 1944, involving the service of Mr. H. I. Thorp, 'while it has always looked at the sources from which a particular firm derives its operating revenue, it considers that factor as but one of all the factors. It also considers such factors as the purposes and functions of the organization, the business which it holds itself out as doing, and such other circumstances as may have a bearing upon the question.' We believe that the decision of the Supreme Court in the Agnew-Fayerweather Case fully supports the Board's position in this regard. There the court made it clear that 'if the underwriting business of a firm is substantial, the firm is engaged in the underwriting business in a primary way though by any quantitative test underwriting may not be its chief or principal activity.' The facts in this case, with the exception of the percentage of gross income derived from the underwriting business, are similar to the facts in the Agnew-Fayerweather Case. In view of the widespread activities of Merrill, Lynch throughout the ✓

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"nation, the very large aggregate volume of its underwriting business, the fact that it holds itself out as an underwriter and distributor, its relative position among the underwriting firms of the country, and the other facts stated above, the Board is of the opinion, on the basis of the information presented, that the purpose of the statute would be defeated to hold that the firm is not 'primarily engaged' in the underwriting business.

"It will be appreciated if you will advise Mr. Fuller of the Board's view in this matter and request him to take such steps as may be necessary to effectuate compliance with the statute. Please advise the Board promptly of any developments in this matter."

Approved unanimously, together with letters to Mr. McLarin, President of the Federal Reserve Bank of Atlanta, and the Honorable Preston Delano, Comptroller of the Currency, respectively, reading as follows:

"Reference is made to Mr. Patterson's letter to Mr. Vest dated June 16, 1947 and Mr. Vest's reply of June 18, 1947, with regard to the status under section 32 of the Banking Act of 1933 of W. R. Lovett, a partner in the firm of Merrill, Lynch, Pierce, Fenner & Beane and a director of the Atlantic National Bank of Jacksonville, Florida.

"It was understood that a decision involving Mr. Lovett would be held in abeyance pending a determination by the Board whether the firm of Merrill, Lynch is primarily engaged in the underwriting business for the purposes of the case of Mr. Samuel L. Fuller. Accordingly, there is enclosed herewith a copy of a letter which the Board is today sending to the Federal Reserve Bank of New York relating to the status of Mr. Fuller.

"Your bank is at liberty to use the information contained in the enclosed letter in advising Mr. Lovett of his status under section 32 and it is suggested that you request him to take such steps as may be necessary to effectuate compliance with the statute. Please keep the Board advised of any developments in this matter."

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"For your information there is enclosed herewith a copy of a letter which we are today sending to the Federal Reserve Bank of New York with regard to the status of Mr. Samuel L. Fuller under section 32 of the Banking Act of 1933. The attached letter will also apply to the service of Mr. W. R. Lovett who is a partner in the firm of Merrill, Lynch, Pierce, Fenner & Beane, and a director of the Atlantic National Bank of Jacksonville, Florida.

"We presume that in the event Mr. Lovett and Mr. Fuller do not take steps within a reasonable time to comply with the law that your office will give consideration to the question of instituting such procedures as you deem advisable to effectuate compliance with the statute."

Letter to Mr. E. W. Moise, 911 The First National Bank Building, Atlanta 3, Georgia, reading as follows:

"This refers to your letter to Mr. Vest dated September 20, 1947, inquiring whether Section 32 of the Banking Act of 1933 applies to a special partner of a firm primarily engaged in the underwriting business and if so, whether such section would apply to a sister of the individual concerned.

"Since 1935 the Board has consistently taken the position that Section 32 is applicable to a special or limited partner. Such section as originally enacted was applicable to 'an officer, director, or manager' of an organization of the kind described in such section, and in its regulations issued pursuant to the provisions of that section the Board construed the above phrase to be applicable to a general partner but not to a special partner. The section was amended, however, in 1935 so as to be applicable to certain specific relationships which include 'a partner * * * of any partnership'. The amended section authorized the Board to make exceptions 'by general regulations' and in connection with its revised Regulation R, the Board gave particular consideration to the question whether there should be an exception in the case of a special or limited partner. It was decided at that time that no exception should be made, and although the matter has been since reconsidered, the Board has

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"not felt that it would be justified in excluding a special or limited partner.

"The service of a sister or any other member of the family of the individual involved might, of course, raise questions as to an evasion of the law, and in the circumstances we are not in a position to advise you whether any such service would or would not be prohibited.

"If you have any further questions relating to this matter it is suggested that you confer with the Federal Reserve Bank of Atlanta."

Approved unanimously.



Secretary.

Approved:



Chairman.