

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 24, 1948. The Board met in the Board Room at 4:25 p.m.

PRESENT: Mr. Szymczak, Chairman pro tem.  
Mr. Draper  
Mr. Evans  
Mr. Clayton

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board  
Mr. Vest, General Counsel  
Mr. Townsend, Associate General Counsel

Mr. Szymczak stated that this morning the following letter from Senator Tobey, Chairman of the Senate Banking and Currency Committee, addressed to Chairman Eccles under date of March 24, 1948, was delivered to Mr. Thurston, and that Mr. Thurston brought the letter to his (Mr. Szymczak's) office. Mr. Szymczak said that when the letter was first presented to him he thought it was a perfunctory request for such files as could be made available at a committee hearing and that so far as he knew there was nothing in the Board's files that could in any way be used against anybody in any other department of Government and certainly nothing that could be used against Mr. McCabe. However, he felt the letter was not clear as to the information desired by the Committee, and this meeting was called to consider the matter. He also said that Mr. L'Heureux, Chief Counsel of the Senate Banking and Currency Committee, had called Mr. Thurston to ascertain if the letter had been received and had stated during the conversation that a similar request had been sent to the Comptroller of the Currency:

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"In view of certain testimony before the Committee on the nomination of Mr. Thomas B. McCabe and in view of previous reports in the daily press and in banking publications, I would appreciate it if you would furnish to me as promptly as possible copies of any correspondence in your office or other relevant material in your files indicating an interest on the part of Transamerica Corporation or of Bank of America N. T. & S. A. in applications pending before your office for permits for branches or in pending legislation or in other governmental actions affecting the interests of Transamerica or of Bank of America."

Mr. Thurston stated that in his telephone conversation with Mr. L'Heureux the latter commented that the Committee was not asking for voluminous files or for "ancient history".

During the course of a discussion of how more definite information could be obtained as to what material the Committee wanted, the suggestion was made that it might be desirable for Mr. Townsend to go to the Capitol and talk with Mr. L'Heureux to ascertain exactly what was desired.

Mr. Townsend pointed out that if the request were interpreted literally probably the only material that would be furnished would be an exchange of correspondence between the Board and Transamerica in 1942 when the latter applied for a permit to open branches of a State bank in Pasadena. In its letter declining to approve the application the Board stated that its position in the matter was in accord with the policy upon which there was unanimous agreement by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation that the Federal bank supervisory agencies should, under existing circumstances, decline permission for the acquisition directly or indirectly of any additional banking offices or any substantial

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interest therein by Transamerica Corporation, Bank of America N.T. & S.A., or any other unit of the Transamerica group. In addition to this correspondence, Mr. Townsend stated, there were two very important matters which might be regarded as having a bearing on the matter covered by the Committee's request. One of these, he said, was the correspondence during the early part of 1947 which the Board had with the Department of Justice with respect to the possible institution by the Department of a suit against Transamerica under the Sherman Antitrust Act which included a letter from the Board to the Secretary of the Treasury in which it was stated that the Board understood that the Attorney General had asked for the former's views and that the Board would appreciate it if he would give the subject his early consideration. According to the Board's records, no reply was received to the letter to the Secretary of the Treasury. Mr. Townsend added that the second matter consisted of letters which the Board wrote to the Attorney General, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation on November 7, 1947, advising that the Board had directed its Legal Division to conduct an investigation for the purpose of determining whether it should institute a proceeding against Transamerica Corporation under the Clayton Act and the reply received from the Comptroller of the Currency enclosing copies of two letters to the Bank of America and to the First National Bank of Portland which referred to the applications filed by those institutions for permission to establish branches and stated that the of-

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Office had been advised that the Board of Governors was considering the institution of a Clayton Act proceeding against Transamerica Corporation and that pending the outcome of that matter action on the applications for permission to establish branches would be deferred.

Mr. Szymczak said that the Board should not hold information back from Senator Tobey but that, at the same time, it was important that the Board not rush to furnish information which the Department of Justice, the Comptroller of the Currency, or the Treasury might feel should not be released.

Mr. Evans said that the Board would be taking a rather narrow view of the request if it did not make available the material under discussion and that he would be in favor of showing all of it to Senator Tobey and asking him whether he wanted it. He added that the Board did not know how much Senator Tobey really knew about this material and that it would be embarrassing to have him (Senator Tobey) ask why it had not been mentioned.

Mr. Draper stated that he felt the request should be answered in the frankest way possible.

In the ensuing discussion the members of the Board present expressed the view that, while the request was not entirely clear as to what was expected in response to it, the Board should endeavor to comply with it promptly. The suggestion was made, therefore, that Mr. Townsend might go to the Capitol and talk with Mr. L'Heureux, telling him that the files contained the material referred to above, that the Board did not want to burden the Committee with a lot of files, and that it would like to know what material was desired.

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This suggestion contemplated that Mr. Townsend would say to Mr. L'Heureux that some of the material, particularly the correspondence with the Attorney General and the Secretary of the Treasury with respect to the suit by the Department of Justice under the Sherman Antitrust Act was of a highly confidential character, that therefore it might be undesirable for various reasons to have the material presented in open hearings or otherwise made public, and that, although the Board would prefer not to have it released, the decision on that point was one that would have to be cleared up. The further suggestion was made and concurred in by members of the Board that Mr. Townsend should be accompanied by someone else from the Legal Division and that upon their return from the Capitol they should put a memorandum in the files containing the substance of their conversation with Mr. L'Heureux.

There was agreement also with the comment that, since the release of the material might come as a surprise to the Attorney General and the Secretary of the Treasury, the considerations which would make the public release of the material undesirable should be made clear in connection with its transmittal, and that the information furnished was being sent because it was felt that in view of the Committee's request the Board could do nothing else than make a frank response.

At the conclusion of the discussion it was agreed unanimously that Mr. Townsend and someone else from the Legal Division should go to the Capitol tomorrow morning and talk with Mr. L'Heureux advising him of the Board's views as outlined above and that when it was

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known what material the Committee wanted a letter transmitting the material should be prepared and sent to the Committee.

During the discussion which resulted in the above action, Mr. Clayton raised the question whether the Board should undertake to ascertain from the Comptroller of the Currency the nature of the reply he proposed to make to the inquiry received by him and to advise him what the Board proposed to do. Messrs. Draper and Evans stated that they would be opposed to such a step.

At this point Messrs. Vest and Townsend 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 March 23, 1948, were approved unanimously.

Letter to the Presidents and Chairmen of all Federal Reserve Banks prepared pursuant to the discussion at the meeting of the Board on January 23, 1948, reading as follows:

"Recently in connection with a review of the policies in effect with respect to outside business affiliations and teaching activities of members of the Board's staff and officers and employees of the Federal Reserve Banks, the Board expressed the view that, under established policies, such connections should be made by those occupying responsible positions only with the approval of the Board whenever a member of its own staff was involved and only with the approval of the appropriate committee or officers of a Federal Reserve Bank whenever an officer or employee of the Bank was involved. This letter is for the purpose of incorporating the above suggestion in existing policies and consolidating the Board's letters on this matter into a single communication. Accordingly, this letter supersedes the Board's letters of May 7, 1924 (X-4048, F.R. L.S. #9054), June 25, 1937 (S-8, F.R.L.S. #9055), July

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"26, 1937 (S-19a, F.R.L.S. #9056), and June 25, 1945 (S-855, F.R.L.S. #9054.1).

"For many years the Board has taken the position that the good conduct and repute of the Federal Reserve System require that officers and employees occupying responsible positions in the Federal Reserve Banks shall give their entire time and attention to the affairs of the Banks and not be identified with any outside business interests. Stated as a general principle, it is important that officers and employees of a Federal Reserve Bank refrain from being placed in any position which might embarrass the Federal Reserve Bank in the conduct of any of its operations or result in any questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their official responsibilities or their ability to perform satisfactorily all of the duties of their positions.

"Question as to the applicability of this policy to teaching commitments has been raised and it has been urged that there is a definite distinction between the outside business connections contemplated by the above statement of policy and purely educational work, and that there should be no objection to an officer or a member of the research staff of a Federal Reserve Bank having a teaching connection with a university which is also helpful in enabling him to keep in touch with current developments in his field and in establishing and maintaining relations between the Bank and the university which would be of advantage to the Bank. The Board is in agreement that such instances, as well as other teaching connections which are closely related to the work of the Federal Reserve Banks, such as A.I.B. classes, should not be regarded as coming within the scope of the policy stated above provided; (a) the teaching engagement is clearly secondary and in keeping with employment by the Reserve Bank, and (b) the teaching engagement does not interfere with the work of the Reserve Bank.

"In the review of this policy, other questions have arisen about outside activities of members of the research staffs. Some time ago the Board had occasion to consider the question of the propriety of a member of the research staff receiving substantial pay for preparing for a semipublic agency a study peculiarly in the field of Federal Reserve interests. The Board

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"expressed the view that an important principle was involved, namely, that a full-time employee or officer of a Reserve Bank should not receive pay from another source for work being, or which should be, done by the Reserve Bank as part of its public service, and that, in the case in question, if the study were one that the Bank, as such, should make, it should be done by the Bank without charge to the other agency, except possibly for out-of-pocket expenses. It may be added that frequently the person involved would not be called upon to render the outside service if he were not in position to utilize information and material accumulated in the conduct of the affairs of the Bank.

"The policy with respect to outside engagements applies only to officers and to full-time regular employees. It may not necessarily apply to individuals engaged as consultants on a fee basis, to those engaged as part-time employees, or to those employed for temporary periods, such as during vacations or for work on specific projects. Such cases should be considered individually by the Reserve Banks in the light of the general principle involved. In this connection, it may be observed that a consultant for special services on a part-time basis should not be an officer of the Bank nor should he be considered as a representative of the Bank, except to such extent as he may be authorized for the specific purpose for which he is engaged.

"It is expected that reports now being made to the boards of directors of the Federal Reserve Banks regarding indebtedness and outside business activities of officers and employees occupying responsible positions will be continued. The Board's examiners have been instructed, in connection with each examination of a Federal Reserve Bank, to review these reports and advise the Board of any situations which should be brought to its attention. In no event should an officer or an employee occupying a responsible position undertake any outside business activity or teaching engagement without first obtaining the approval of the appropriate committee or officer of the Bank.

"The Board also feels that, in accordance with the principle stated in this letter, officers of the Federal Reserve Banks and employees occupying responsible positions should not purchase stock in a member bank or an

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"affiliate thereof (except possibly in the case of affiliates where the actual relationship to the member bank is remote) and that they should dispose of any such stock which they may now have, or may hereafter acquire, as soon as practicable without undue hardship. It is requested, therefore, that the annual reports of officers and employees to the board of directors regarding indebtedness and outside business activities also include information regarding the ownership of bank stock and stock of affiliates of banks."

Approved unanimously, together with a memorandum to all employees of the Board which, after quoting the pertinent parts of the letter, contained the following paragraph:

"The policies set forth above are also applicable to officers and employees of the Board. Therefore, no outside business or teaching activity should be undertaken by any employee of the Board until the matter has been reviewed with the head of the division under whose supervision he works and, in the case of officers and employees occupying responsible positions, the approval of the Personnel Committee obtained. Each employee now having outside business or teaching connections which have not already been reported, is requested to report such activities to his division head."

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

"There is enclosed for your information a copy of a statement which will be published in the next issue of the Federal Reserve Bulletin in response to a request for a ruling on the question whether, in the periodic valuation of assets in a common trust fund operated in accordance with section 17(c) of Regulation F, it is permissible to value Series G United States Savings Bonds at par value rather than redemption value."

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Approved unanimously, together with the statement referred to in the letter which read as follows:

"VALUATION OF UNITED STATES SAVINGS  
BONDS IN COMMON TRUST FUND

"The Board has received inquiries concerning the question whether, in the periodic valuation of assets in a Common Trust Fund operated in accordance with section 17(c) of the Board's Regulation F, it is permissible to value Series G United States Savings Bonds at par value rather than redemption value.

"In a statement published in the Federal Reserve Bulletin for January 1942 at page 7, the Board expressed the opinion that redemption value was the most appropriate basis for valuing such bonds. As pointed out at that time, however, the only provision of the Board's Regulation F which is pertinent to this matter is the requirement, in section 17(c)(1), that the written plan for the operation of a Common Trust Fund shall include, among other things, provisions relating to the basis and method of valuing the assets in the Fund, and the Regulation does not undertake to prescribe any precise basis or method of valuation. Accordingly, Regulation F does not prohibit the valuing of Series G United States Savings Bonds at par value in the periodic valuation of assets in a Common Trust Fund, and such action is permissible if it is consistent with the terms of the written plan governing the Common Trust Fund and with applicable State law."

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

"Some of the Federal Reserve Banks, in replying to the Board's wire of March 15, indicated that they were not in favor of setting up a reserve as proposed therein to provide a more rapid amortization of premiums on Government securities. In the circumstances, the Board will defer action on this matter until it can again be discussed at the May Conference of Presidents."

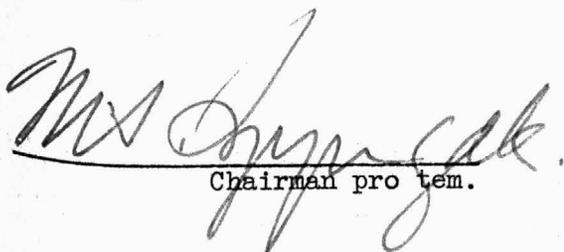
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Approved unanimously.

  
Secretary.

Approved:

  
Chairman pro tem.