

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 19, 1948. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Draper
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Hammond, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board
Mr. Riefler, Assistant to the Chairman
Mr. Thomas, Director of the Division of
Research and Statistics
Mr. Vest, General Counsel

Chairman McCabe stated that Mr. Roland Pierotti, Washington representative of the Bank of America N.T. & S.A., called at his office yesterday afternoon and stated that he understood one of the members of the Board had said the Board would not grant an application to the Bank of America for a foreign branch in Siam. Chairman McCabe went on to say that he informed Mr. Pierotti that he did not know whether the application was in the Board's offices, that it had not yet come before the Board for action, and that he could be assured the application would receive full consideration when it had been processed in the usual manner.

In this connection Mr. Clayton presented a memorandum dated October 19, 1948, stating that on Friday, October 15, 1948, Mr. James T. Scott, Economic Adviser to His Majesty's Government of Siam, called

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on him for the purpose of requesting prompt and favorable action on the application of the Bank of America N.T. & S.A. for establishment of a foreign branch at Bangkok, Siam. The memorandum also stated that Mr. Scott had been informed that the Board had other factors to consider in addition to those he mentioned and that the application would have careful consideration. Mr. Clayton added that an application had been received in the Board's offices within the past few days and was now being processed.

Messrs. Szymczak and Draper both stated that they also had been visited by Mr. Scott for the purpose of urging that the application of Bank of America for a branch in Siam be approved, that they had responded by outlining the Board's procedure in processing such applications, and that they had informed him the matter would receive the customary careful consideration. Mr. Draper also said that in talking with Mr. Scott, he expressed some doubt as to whether additional branches would be approved at this time.

There was presented a memorandum from Mr. Szymczak dated October 15, 1948, recommending that the services of Mr. John Exter, an economist in the Division of Research and Statistics, be made available to the Government of Ceylon for a period of six months with the understanding that consideration would be given to an extension of the period and that the question of the terms on which his services would be made available would be determined after

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further study and discussion with the State Department.

Mr. Szymczak stated that a request from the Government of Ceylon had been received through the State Department some time ago asking that the services of a member of the Board's staff be made available to assist in preparing central banking legislation, that a general reply without a commitment was given to that request, and that the State Department was now pressing the matter because it felt strongly that, for reasons which he outlined, a representative from the United States should be made available to assist Ceylon in establishing a central bank. He went on to say that the request was for someone to assist for a period as long as two or three years, which would include a period during which he would serve as manager of the central bank after it was established, and that both Mr. Southard, Associate Director of the Division of Research and Statistics, and Mr. Thomas recommended granting Mr. Exter leave for a period of six months beginning January 1, 1949, with the understanding that the leave might be extended but with the thought that the services of a person from an operating department of the Board or of a Federal Reserve Bank subsequently would be made available after the legislation relating to the central bank had been adopted.

Chairman McCabe stated that he felt consideration should be given in connection with this matter to the question whether the Board should establish a procedure to check the work of members of

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the staff made available to assist in preparing central banking legislation for other countries to assure that their recommendations were based on practicable and not theoretical considerations and were in harmony with the ideas of central banking in this country and with the free enterprise system. He stated that a representative from the Board's staff would be looked upon as reflecting Board views despite statements in letters of instruction asserting that the person was loaned for technical assistance only and that the views he expressed were not necessarily those of the Board, and that he felt it would be desirable on such undertakings to have the views of one person checked by another person on the ground.

There was an extended discussion of the function of foreign missions and of the terms on which individuals had been loaned to other Governments for the purpose of assisting in preparing legislation for central banks, as well as of the concepts that had been applied in assisting smaller countries in establishing central banks. It was stated in this connection that the recommendations made to Latin American countries were made in the light of economic conditions and the needs of the respective countries for central banking functions rather than on the basis of the highly developed systems in more advanced nations. The discussion included a consideration of the question whether the expenses of persons loaned to assist other Governments should be borne by the Board or by the Government

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which asked for their assistance. There was also a discussion of the possibility of using the services of persons from outside the Federal Reserve System to assist with such projects. During the discussion it was suggested that a committee be appointed to look into the procedure and the terms under which members of the staff should be made available to assist in foreign assignments and to submit a recommendation to the Board.

This suggestion was approved unanimously, and Messrs. Szymczak, Riefler, Thomas, and Southard were appointed as the members of the special committee.

With further reference to the recommendation contained in Mr. Szymczak's memorandum with respect to the request of the Government of Ceylon for Mr. Exter's services, Mr. Carpenter then read a draft of cable to be sent by the State Department to Mr. Jester, American Consul General at Colombo, Ceylon. The draft was discussed and changed to read as follows:

"The Board of Governors of the Federal Reserve System informs Department that it takes pleasure in offering to the Government of Ceylon the services of Mr. John Exter for a maximum period of six months for the purpose of advising Ceylon on the drafting of appropriate legislation and the making of other plans for a central bank. Mr. Exter is Assistant Head of the Far East Unit of the Division of Research and Statistics of the Board of Governors and has served on similar assignments in other countries. The terms on which Mr. Exter's services would be available will be a matter for subsequent consideration.

"The Board hopes that Mr. Exter's services need not be made available before January 1, 1949. However,

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"if the Ceylon Government considers that the urgency of the project requires it, the date could be advanced to December 1, 1948.

"With respect to the Ceylon request for a Manager of the new Central Bank for an initial period of two or three years, the Board of Governors offers to undertake to obtain from within its own staff or elsewhere in the Federal Reserve System the services of an appropriate expert in the field of central bank operations to replace Mr. Exter when the time approaches to set up the new bank. It is not possible however for the Board to give assurance at this time that it can obtain such an expert or that he could remain in Ceylon for a period as long as 'two or three years.'

Upon motion by Mr. Szymczak the cable was approved unanimously as changed for transmission through the State Department.

Mr. Carpenter stated that Mr. Williams, President of the Federal Reserve Bank of Philadelphia, telephoned him yesterday stating that the Treasury Department Savings Bonds Division had asked that the Federal Reserve Bank of Philadelphia bear the cost of printing 50,000 copies of an address which he gave before the annual U. S. savings bond sales development conference in St. Paul, Minnesota, on September 14, 1948. The copies would not show they had been printed by the Federal Reserve Bank and they would be used by the Treasury for distribution to industrial concerns and others to promote the payroll savings plan and other means of selling savings bonds. The reason for the request, Mr. Carpenter said, was that the Treasury had no funds with which to pay the cost of printing. Mr. Carpenter added that Mr. Williams saw no objection to granting

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the request but would like to know whether the Board would have any objection, and that the question involved was similar to the one raised on several occasions in the past when the Reserve Banks and the Board had paid expenses designed to facilitate the Treasury savings bond program.

Chairman McCabe suggested that a copy of Mr. Williams' statement be reviewed by Mr. Thurston in the light of its possible effect upon public relations of the Federal Reserve System and that if Mr. Thurston saw no objection Mr. Williams be informed that the Board would interpose no objection to the proposed expenditure with the understanding that it would not constitute a precedent for the future.

Chairman McCabe's suggestion was approved unanimously.

Secretary's note: Following the meeting Mr. Thurston informed the Secretary that he saw no objection to complying with the Treasury's request but that, having in mind the overall credit policy of the System, Mr. Williams might wish to make certain changes in the text of the address. These suggested changes were given to Mr. Williams by telephone which he indicated he would make, and at the same time he was also informed of the Board's action with respect to his inquiry.

Before this meeting Mr. Clayton had addressed a memorandum to the Board recommending that, for the reasons stated in the memorandum, (1) the Division of Examinations be authorized to inform Moody's Investors Service of the Board's willingness to absorb

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one-half of the cost of computing the 18 months' average figures on Group 2 corporate securities published by Moody's, Fitch, National Quotation Bureau, and Standard & Poor's under an arrangement similar to that in effect with the Federal Deposit Insurance Corporation, and (2) that the budget for the Division of Examinations be increased by the necessary amount.

Mr. Clayton's recommendation was approved unanimously.

At this point Messrs. Riefler, Thomas, and Vest 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 October 18, 1948, were approved unanimously.

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

"This refers to your letter of October 14, regarding the penalty of \$70.98 incurred by The Chardon Savings Bank Company, Chardon, Ohio, as a result of a deficiency in its reserves for the period ended September 30. It is noted that the deficiency resulted from an erroneous estimate of the member bank's reserve position given to it by your Bank a few days prior to the close of the reserve period.

"In the circumstances stated in your letter the Board authorizes your Bank not to make the assessment."

Approved unanimously.

Letter to Mr. W. Cloyd Snyder, Snyder and Fletcher, 1124 Fair Oaks Avenue, South Pasadena, California, reading as follows:

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"This refers to your letter of October 12, 1948, enclosing a copy of your correspondence with the Federal Reserve Bank of San Francisco concerning the requirements of subsections (b) and (c) of section 5144 of the Revised Statutes of the United States with respect to the readily marketable assets which must be possessed or acquired by holding company affiliates which are granted voting permits.

"The Board concurs in the opinion of Counsel for the Reserve Bank that if there is no statutory liability imposed upon the holders of the bank stock which is owned or controlled by a holding company affiliate, subsection (b) is not applicable and the holding company affiliate need only establish and maintain a reserve of readily marketable assets other than bank stock in accordance with subsection (c)."

Approved unanimously.

Letter to Mr. Jno. K. Althaus, Secretary, The Credit Bureau, Inc., 1221 G Street, N W., Washington 13, D. C., reading as follows:

"This refers to your letter of October 2, 1948 concerning Section 4(d) of Regulation W.

"Your question has to do with those cases where, in the application for an instalment loan, a borrower sets out the specific uses to which the proceeds are to be put and asks whether, if the expressed purpose indicates that no part of the proceeds are to be so used, the borrower must nevertheless state whether any of the proceeds are to be used to make a downpayment on, or to purchase any listed article.

"Section 4(d) as now written would require the additional statement relating to listed articles, even though the loan application indicates that the proceeds are to be otherwise used. We realize that under some circumstances, such as you describe, compliance with Section 4(d) appears somewhat redundant. However, broader administrative considerations make it appear unwise at present to alter the wording of the section. Of course the regulation does not require that the specific purpose of a loan be set out in the Statement of Borrower, nor is that statement required at all in

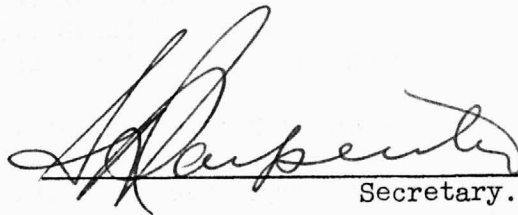
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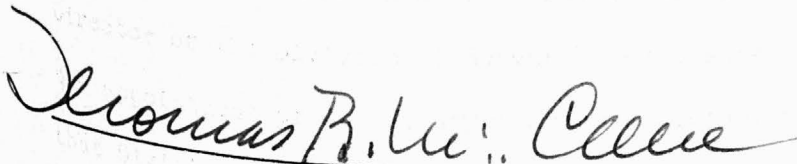
"connection with any loan which is exempt from the provisions of Regulation W, by Section 7.

"Your interest in the regulation, as well as your assistance in acquainting others with its provisions, are greatly appreciated. We shall be glad to help you with questions of interpretation at any time."

Approved unanimously.


Secretary.

Approved:


Chairman.