

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, January 26, 1949.

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

Mr. Carpenter, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Morrill, Special Adviser  
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 25, 1949, were approved unanimously.

Memorandum dated January 25, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending the appointment of Miss Elinor Ruth Harris as an economist in that Division, with basic salary at the rate of \$4,479.69 per annum, effective as of the date upon which she enters upon the performance of her duties after having passed the usual physical examination.

Approved unanimously.

Memorandum dated January 25, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending that Mrs. Winofred Racz be reemployed as a clerk in that Division, effective as of the date of her return to the office, with no change in her previous basic salary of \$2,974.80 per annum. The

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memorandum stated that Mrs. Racz had been on maternity leave since the close of business of December 17, 1948.

Approved unanimously.

Memoranda from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective February 6, 1949:

Date of Memo.	Name	Title	Salary Increase	
			From	To
1/17/49	Orville K. Thompson	Economist	\$4,605.00	\$4,730.40
1/18/49	Mary Jane Harrington	Economist	3,727.20	3,978.00

Approved unanimously.

Memorandum dated January 17, 1949, from Mr. Thomas, Director of the Division of Research and Statistics, recommending increases in the basic annual salaries of the following employees in that Division, effective February 6, 1949:

Name	Title	Salary Increase	
		From	To
Lyndall C. McCloud	Economist	\$5,232.00	\$5,482.80
Mack Gilbert, Jr.	Messenger	2,152.00	2,218.00

Approved unanimously.

Memorandum dated January 3, 1949, from Messrs. Thomas and Southard, Director and Associate Director, respectively, of the Division of Research and Statistics, recommending, in accordance with a discussion at the December meeting of the Staff Group on Foreign Affairs, a systematic exchange of research personnel in

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the foreign field between the Board and the Federal Reserve Bank of New York for the purpose of a more effective integration of the research activities of the two groups. The memorandum stated that the procedure would be instituted for a trial period of six months at a cost of approximately \$60 per month.

Approved unanimously.

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

"Reference is made to your letter of January 14, 1949, requesting approval of a new scale of minimum and maximum salaries for the respective grades under the Job Classification and Salary Administration Plan at the Federal Reserve Bank of Atlanta and its Branches.

"The Board approves, effective January 14, 1949, the following minimum and maximum salaries for the respective grades at the Federal Reserve Bank of Atlanta and the Birmingham, Jacksonville, Nashville and New Orleans Branches:

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$1,320	\$1,740
2	1,440	1,920
3	1,560	2,100
4	1,680	2,280
5	1,860	2,520
6	2,040	2,760
7	2,280	3,060
8	2,520	3,420
9	2,820	3,800
10	3,120	4,200
11	3,480	4,700
12	3,900	5,200
13	4,300	5,800
14	4,800	6,500
15	5,500	7,400
16	6,300	8,500

"The Board approves the payment of salaries to employees, other than officers, within the limits specified

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"for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries are below the minimum of their grades as a result of the structure increase will be brought within the appropriate range as soon as practicable and not later than March 31, 1949."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers at the rates indicated, which are the rates fixed by your Board of Directors, for the period January 13, 1949 to March 31, 1949, inclusive, in accordance with your letters of January 13, 1949.

<u>Name</u>	<u>Title</u>	<u>Salary</u>
Walter A. Hopkins	Asst. Vice President	\$9,500
Ingolf J. Petersen	Asst. Vice President	8,000
Herbert H. Conklin	Assistant Cashier	7,600
Elmer F. Shirey	Assistant Cashier	6,500
Bruce L. Smyth	Assistant Cashier	6,800"

Approved unanimously.

Letter to Mr. Davis, President of the Federal Reserve Bank of St. Louis, reading as follows:

"The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of St. Louis at the rates indicated, which are the rates set by the Board of Directors and reported in your letters of January 13, 1949, and telegram of January 18, 1949:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
<u>Effective January 13, 1949 through May 31, 1949</u>		
Howard H. Weigel	Secretary and Assistant Vice President	\$8,500
Earl R. Billen	Assistant Vice President	6,000
John J. Christ	Assistant Vice President	6,000
<u>Effective February 1, 1949 through May 31, 1949</u>		
Paul E. Schroeder	Vice President	9,500

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"The Board also approves the payment of salary to Lewis H. Carstarphen as a special counsel to represent the Bank in connection with the ground lease contract with the Allen estate, for a period not to exceed three months from January 15, 1949, at a per diem rate not to exceed \$9,600 per annum."

Approved unanimously.

Letter to Mr. Powell, Secretary of the Board, Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors approves the payment of salary to Franklin L. Parsons as an officer of the Federal Reserve Bank of Minneapolis with the title of Associate Director of Research at the rate of \$7,500 per annum, which is the rate set by your Board of Directors and reported in your letter of January 14, 1949, for the period January 14, 1949 to May 31, 1949, inclusive."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Chicago, reading as follows:

"Enclosed herewith is a copy of a letter dated December 23, 1948, from Mr. Charles E. Herzog, of the law firm of Bell, Boyd & Marshall, 135 South LaSalle Street, Chicago 3, Illinois, inquiring whether, under Regulation F, a national bank may invest funds of a trust described in the letter in participations in a common trust fund operated by the bank. Members of the Board's staff have discussed this matter with Mr. Hodge, General Counsel of your Bank, and he has discussed it preliminarily with Mr. Herzog.

"The trust is a revocable trust established in 1946 with a national bank as trustee. During the settlor's lifetime, the income and such portions of the Principal as he may from time to time direct are payable to the settlor. After his death, relatives of the settlor are to receive the income and, ultimately, the Principal of the trust. The trust instrument vests in

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"the trustee broad discretionary powers with respect to investments but provides that, during the settlor's lifetime, these powers shall be exercised in accordance with the directions of the settlor. The settlor has directed the trustee to invest \$10,000 of the funds of the trust in participations in a common trust fund operated by the trustee. The question presented by Mr. Herzog is whether this investment is permissible under Regulation F and, more specifically, whether the propriety of the investment is in any way affected by the provisions of the trust instrument giving the settlor control over investments during his lifetime. In addition to the facts set out in Mr. Herzog's letter, we understand that Mr. Hodge was advised that the common trust fund was put into operation on November 30, 1947, and that the principal of the trust in question now consists of \$115,000 in Government obligations and \$11,000 in cash.

"In the Board's opinion, the mere fact that a trust instrument provides that the investment powers are to be exercised by the trustee in accordance with the directions of the settlor during his lifetime does not make it improper for a bank to invest funds of the trust in participations in the common trust fund. On the other hand, this is a matter which should be considered in connection with all other pertinent data, in determining whether the investment is in conflict with the provisions of Regulation F which prohibit the operation of common trust funds as investment trusts for other than strictly fiduciary purposes, and which provide that the trust investment committee of a bank operating a common trust fund shall not permit any funds of any trust to be invested in a common trust fund if it has reason to believe that such trust was not created or is not being used for bona fide trust purposes.

"These requirements of Regulation F were purposely expressed in rather general terms, with the view that the trust investment committees of banks could and should be relied upon to apply such requirements in accordance with their intent and purposes and that more exact requirements designed to accomplish the same end might unduly restrict the use of common trust funds. Since a series of rulings concerning the application of these requirements in specific situations would appear to be inconsistent with this approach and to be undesirable especially from the standpoint of banks operating

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"common trust funds, the Board is reluctant to rule on individual cases.

"Under Regulation F, the primary responsibility for determining whether the funds of a particular trust properly may be invested in participations in a common trust fund rests on the trust investment committee of the bank operating the fund. If in the case described in Mr. Herzog's letter, the trust investment committee of the bank is satisfied that, in the light of all the pertinent facts, the trust was created and is being used for bona fide fiduciary purposes, and that the investment of the funds of the trust in the common trust fund does not involve the operation of the fund as an investment trust for other than strictly fiduciary purposes, the Board, on the basis of the information before it, will not question the propriety of the investment. It will be understood, of course, that this conclusion applies only to the case described in this letter, and it should not be regarded as a precedent to be applied in any other situation.

"It will be appreciated if you will advise Mr. Herzog in accordance with the foregoing."

Approved unanimously.

Letter to Mr. Elmer B. Staats, Assistant Director, Legislative Reference, Bureau of the Budget, reading as follows:

"This refers to your letter of January 13, 1949 requesting an expression of the Board's views with respect to a draft of bill submitted by the Department of Justice to amend Title 18, United States Code, Section 220, relating to receipt of commissions or gifts for procuring loans.

"It appears that the amendment proposes to include within the prohibitions of Title 18, United States Code, Section 220, the activities of officers, directors, employees, agents and attorneys of any banks, banking associations, trust companies or other banking institutions, the deposits of which are insured by the Federal Deposit Insurance Corporation. The statute at present only has application to member banks of the Federal Reserve System, Federal intermediate credit banks and National Agricultural Credit Corporations.



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"The Board knows of no reason why the prohibitions of this statute should not be applicable to all banking institutions, the deposits of which are insured by the Federal Deposit Insurance Corporation, and accordingly, favors the enactment of the proposed bill."

Approved unanimously.

Letter to Mr. Roy M. North, Deputy Third Assistant Postmaster General, Post Office Department, reading as follows:

"Reference is made to our discussions regarding deposits of currency at the Baltimore Branch of the Federal Reserve Bank of Richmond by the Postmaster at Baltimore, with special reference to a shortage of \$100 noted in the deposit made by the Postmaster on July 26, 1948.

"In accordance with our understanding, Messrs. Myrick and Wilkes of the Board's staff visited Baltimore on December 28 for the purpose of reviewing this matter. They report that they found a harmonious relationship and a feeling of mutual confidence existing between the Baltimore Post Office and the Baltimore Branch. Neither office made any criticism of the other and, based on observations made during the limited time available, the Board's representatives feel that both offices have a reasonably sound method of handling currency. Overages and shortages in deposits are usually reported by the Branch on the second business day following receipt, and the records of both the Post Office and the Branch show that the shortage of \$100 found in a deposit made by the Postmaster on Monday, July 26 at around 2 p.m. was reported to the Post Office on Wednesday, July 28.

"At the meeting held in your office on December 2, 1948, you expressed a hope that, since the Baltimore Post Office has no 'difference account' to which overages may be credited and shortages debited, the Baltimore Branch might see its way clear in this case to absorbing one-half of the \$100 shortage referred to above.

"Your suggestion has been discussed over the telephone with Mr. J. S. Walden, Jr., First Vice President, Federal Reserve Bank of Richmond, who has advised that in this particular case the Branch will absorb one-half of the shortage (\$50) with the definite understanding



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"(1) that such action will not be construed as establishing a precedent, and (2) that the Branch is under no moral or legal obligation to absorb shortages in currency deposited with it. The action in absorbing part of this loss is contrary to the procedure followed with respect to deposits of currency by member banks.

"In our discussions you mentioned the hardship on Post Office employees under the present procedure whereby overages found in their deposits are covered into the Treasury while shortages have to be made up by the employees from their own personal funds. It would seem that the problem with which you are confronted could be met if difference accounts were set up to which under proper control overages could be credited and shortages debited. This procedure is followed in financial institutions and is regarded as standard practice.

"Copies of this letter are being sent to Mr. Walden and to Mr. Milford, Vice President, Baltimore Branch."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve Banks, with copies to the Presidents and Auditors of all Federal Reserve Banks, reading as follows:

"At the Chairmen's Conference held in December 1948 there was discussion of plans for holding a Conference of Auditors during the spring of 1949. The Board's Division of Examinations, in consultation with the Standing Committee of Auditors, has ascertained that the dates of April 6, 7, and 8, 1949, appear most convenient for the conference.

"Subsequently, the Board took up the matter with Mr. R. L. Dearmont, Chairman of the Chairmen's Conference, and he has concurred in the calling of the Conference of Auditors for April 6, 7, and 8. Accordingly, the conference will be held at the Board's offices in Washington on those dates.

"In accordance with established practice, the Standing Committee of Auditors plans to consider items for the agenda at a meeting to be held well in advance of the conference, and it is understood that Mr. John J.

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"Fogg, Chairman of the Committee, will shortly communicate with the Reserve Bank auditors with respect to the submission of suggested topics for the agenda. Copies of the agenda will be furnished you as far in advance of the date of the conference as possible.

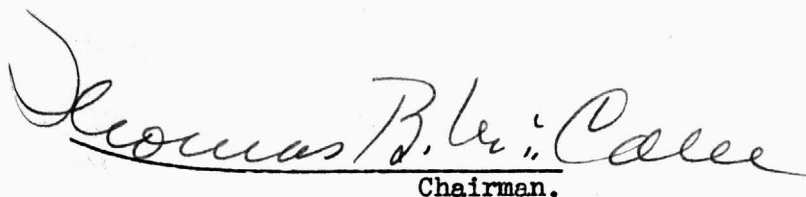
"It is suggested that, so far as practicable, each Reserve Bank be represented at the conference by the Auditor or General Auditor and his principal assistant.

"It will be appreciated if you will notify the Board's Division of Examinations of the names of the representatives of your Bank who will attend the conference. If they would like to have us procure hotel accommodations in Washington for them, we would be pleased to do so if they will inform us of the time of their arrival. If the representatives have any preferences as to hotels we shall attempt to make arrangements accordingly."

Approved unanimously.

  
Secretary.

Approved:

  
Chairman.