Minutes of actions taken by the Board of Governors of the Federal Reserve System on Friday, September 30, 1949. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Draper
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Leonard, Director, Division of Bank Operations
Mr. Millard, Director, Division of Examinations
Mr. Solomon, Assistant General Counsel
Mr. Smith, Special Counsel

Reference was made to the Statement and Order approved at the meeting on September 27, 1949, with respect to a request from counsel for Transamerica Corporation for the production of certain records. Mr. Solomon stated that the information which the Board had requested from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation had been received and that it seemed desirable to show in the Statement and Order issued by the Board that such information was being furnished. He also said that as a result of further discussions of the Order with Mr. Evans and Mr. Hodge, Technical Adviser to Mr. Evans, the language had been changed to make it clear that the Board was not passing upon the relevancy to the proceeding of the requested material and to permit counsel for respondent to submit a memorandum at his earliest convenience (instead of within 30 days) setting forth reasons for requesting certain other information.

Mr. Smith stated that the form of Order approved on September
27, 1949, was entirely acceptable to him but that he also felt the revised form of Order was satisfactory.

In response to a question from Mr. Szymczak, Mr. Solomon added that none of the material being furnished by the Comptroller of the Currency or the Federal Deposit Insurance Corporation came from confidential sections of examination reports.

Thereupon, upon motion duly made and seconded, a revised Statement and Order was approved unanimously in the following form, with the understanding that it would take the place of the Statement and Order approved at the meeting on September 27, 1949, which had not been sent:

"UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
IN THE MATTER OF
TRANSAMERICA CORPORATION
STATEMENT AND ORDER ON RESPONDENT'S DEMAND FOR PRODUCTION OF PAPERS FROM THE BOARD'S FILES
"Respondent has filed with the Board a 'Notice and Demand for Production of Papers in the Board's Files', dated September 10, 1949.
"Without passing upon the relevance or admissibility of the material, but in the interest of affording respondent every reasonable opportunity to prepare and present its defense to the Board's Complaint, the Board is granting respondent's requests for the documents referred to in Items (1) and (2) of respondent's Notice and has had compiled, and is ordering that there be sent to respondent, the statistical information requested in Item (6) of respondent's Notice. Similarly, the Board referred to the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, respectively, respondent's requests for the statistical information mentioned in Item (7) of respondent's Notice (said Item (7) being concerned with applications filed with those agencies), and the Board is ordering that there be sent to respondent
"certified copies of the statistical information with which those agencies responded.

"The Board has been unable to find any records of any kind which are within the call of Item (3) of respondent's Notice.

"It appears that the material referred to in Items (4) and (5) of respondent's Notice has no relevance whatever to any issues involved in this proceeding or to any evidence offered in support of the Board's Complaint, that some of the documents were prepared for the Board by members of its legal staff, and that all of them are of a character that should not be disclosed without some appropriate reason. In the circumstances, before acting upon respondent's request to produce the documents called for by Items (4) and (5) of its Notice, the Board will be glad to receive from counsel for respondent, if he desires to submit it, a memorandum setting forth the reasons why such documents are believed to be relevant, the purposes which respondent expects them to serve, the reasons why he believes such documents should be produced, and the authorities relied on by respondent in support of its request for their production. If counsel for respondent desires to submit such a memorandum he should submit it at his earliest convenience and serve copies upon the Board's Solicitor. The Board's Solicitor will be allowed five days from the date of his receipt of such memorandum within which to file with the Board, and serve upon counsel for respondent, a reply thereto.

ORDER

"It is ORDERED that the Secretary to the Board prepare and forward to counsel for respondent and to the Solicitor for the Board:

1. A certified copy of a letter (being the letter described in Item (1) of respondent's above-mentioned Notice) from M. S. Eccles to Henry Morgenthau, Jr., dated October 27, 1938, together with a certified copy of the memorandum referred to in said letter.

2. A certified copy of an undated and unsigned memorandum (being the memorandum described in Item (2) of respondent's above-mentioned Notice) beginning with the words, 'The Board believes that, in the interest of all concerned,' and concluding with the words, 'thus best serve the public interest'.
"3. The statistical information referred to in Item (6) of respondent's above-mentioned Notice.

4. In response to Item (7) of Respondent's above-mentioned Notice:
   (a) A certified copy of each of four statistical tables forwarded to the Board by the Comptroller of the Currency, such tables being headed, respectively, 'Applications filed with Comptroller of the Currency to organize national banks and to convert State banks into national banking associations for the United States as a whole as shown in his Annual Reports to Congress', 'Applications filed with Comptroller of the Currency to organize national banks and to convert State banks into national banking associations as shown by the Comptroller's records', 'Branches brought into the national system for the United States as a whole as shown in Comptroller of the Currency's Annual Reports to Congress', and 'Branches brought into the national system for each State in the Twelfth Federal Reserve District individually as shown by the Comptroller's Annual Reports to Congress'.
   (b) A certified copy of each of three statistical tables forwarded to the Board by the Federal Deposit Insurance Corporation, such tables being headed, respectively, 'Actions of the Federal Deposit Insurance Corporation on applications for admission to insurance of new banks not members of the Federal Reserve System in the Twelfth Federal Reserve District', 'Actions of the Federal Deposit Insurance Corporation on applications related to new banks or offices from banks not members of the Federal Reserve System -- United States and possessions', and 'Actions of the Federal Deposit Insurance Corporation on applications for establishment of offices of banks not members of the Federal Reserve System in the Twelfth Federal Reserve District'.

"This 30th day of September 1949.

"By the Board.

(signed) S. R. Carpenter,
Secretary.

"Governors Eccles and Clayton took no part in the consideration or decision of the Notice and Demand referred to in the foregoing Statement and Order.

Mr. Eccles entered the meeting at this time.

There were presented telegrams to the Federal Reserve Banks
of Cleveland, Atlanta, Chicago, St. Louis, and San Francisco stating
that the Board approves the establishment without change by the Fed-
eral Reserve Bank of San Francisco on September 27, by the Federal
Reserve Bank of St. Louis on September 28, and by the Federal Re-
serve Banks of Cleveland, Atlanta, and Chicago on September 29,
1949, of the rates of discount and purchase in their existing sched-
ules.

Approved unanimously.

Before this meeting there had been circulated among the mem-
ers of the Board a memorandum from Mr. Leonard dated September 27,
1949, reading as follows:

"In accordance with the authority given by the Board
on September 22, I have discussed with Mr. Paul Grady of
Price, Waterhouse & Co. the possibility of his serving as
consultant in the review of the functional expense system
and other accounting reports submitted by the Federal Re-
serve Banks.

"Attached is a letter dated September 27 from Price,
Waterhouse & Co. agreeing to undertake the work and con-
taining their proposal. Under their proposal the work
would be under the personal supervision of Mr. Paul Grady,
a partner of the firm, and their charges for the service
would be computed at the rate of $20 an hour per man. In
the discussion Mr. Grady said that in the assignment he
would expect to use one other man and that they would ex-
pect to complete the assignment and submit a report on or
before December 1. The firm estimates that the aggregate
fee for the assignment would be approximately $10,000, in
addition to which they would expect reimbursement for
necessary traveling expenses. Mr. Grady said that the fee
of $20 an hour is their minimum fee for principals and
that they usually charge higher fees for special assign-
ments, such as this, but that in view of the interesting
character of the particular assignment and the nature of
the Federal Reserve they would base the charges on their
regular minimum fee."
"I inquired whether the firm could place Mr. Grady at the disposal of the Board so that he would be acting as a personal consultant to the Board. Mr. Grady replied that he felt it would be much better from the Board's point of view for this to be an engagement of the firm with all the advantages that implies. However, if the Board should insist upon the other arrangement he would be willing to take the matter up with his associates in the firm to see if such arrangements could be made.

"I recommend that the proposal as outlined in the firm's letter of September 27 be accepted. Attached is a draft of a letter to that effect.

"I recommend also that an appropriate increase be made in the budget of the Division of Bank Operations to cover payment of fee and reimbursement of the traveling expenses."

Mr. Vardaman had noted on the copy of the draft letter to Price, Waterhouse and Company which accompanied Mr. Leonard's memorandum, that he felt it would be better to employ the individual, Mr. Grady, rather than the firm, but that this point might be a distinction without a difference.

In response to a question from Chairman McCabe, Mr. Leonard stated that the reason for recommending the employment of Price, Waterhouse and Company was that an extensive study of the Board's functional expense reports had been completed by the President's Conference Committee on Accounting during the past year, that the study was now being reviewed with the expectation that certain changes would be made in the accounting procedures followed at the Federal Reserve Banks, and that before deciding finally on such changes it would be helpful to have the suggestions of a firm of Public accountants in order to help make certain that the procedures...
adopted were the best available and were in accordance with approved accounting practices.

There followed a discussion of Mr. Vardaman's suggestion that Mr. Grady as an individual be employed rather than the firm of Price, Waterhouse and Company, and it was the consensus that this arrangement would not be practicable under all the circumstances.

Following the discussion, upon motion by Mr. Szymczak, the recommendations contained in Mr. Leonard's memorandum dated September 27, 1949, were approved unanimously, together with a letter to Price, Waterhouse and Company, reading as follows:

"The Board of Governors has approved the engagement of your firm to serve as consultants in the review of the functional expense and other accounting reports submitted by the Federal Reserve Banks to the Board, in accordance with the arrangements set forth in your letter of September 27 to Mr. Leonard, Director of the Board's Division of Bank Operations.

"It is understood that such services will be rendered under the personal supervision of Mr. Paul Grady, and that it is expected the assignment will be completed and the report submitted on or before December 1, 1949."

At this point Messrs. Leonard, Millard, Solomon, and Smith withdrew, and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on September 29, 1949, were approved unanimously.

Memorandum dated September 30, 1949, from Mr. Carpenter, Secretary of the Board, recommending increases in the basic annual
salaries of the following employees in that Division, effective October 2, 1949.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>John C. Brennan</td>
<td>General Assistant</td>
<td>$4,730.40</td>
<td>$4,855.80</td>
</tr>
<tr>
<td>Mabel Goepfert</td>
<td>Secretary to Mr. Carpenter</td>
<td>$4,103.40</td>
<td>$4,228.80</td>
</tr>
</tbody>
</table>

Approved unanimously.

Memorandum dated September 30, 1949, from Mr. Nelson, Director of the Division of Personnel Administration, recommending that the resignation of Mrs. Mary B. Malarkey, a clerk-stenographer in that Division, be accepted to be effective, in accordance with her request, at the close of business September 30, 1949.

Approved unanimously.

Memorandum dated September 29, 1949, from Mr. Bethea, Director of the Division of Administrative Services, recommending the appointment of Charles V. Carey as a laborer in that Division on a temporary basis for a period of two months, with basic salary at the rate of $2,020 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed the usual physical examination.

Approved unanimously.

Letter to Mr. E. A. Goldenweiser, Institute of Advanced Study, Princeton University, Princeton, New Jersey, reading as follows:

"This letter is in confirmation of Ralph Young's telephone conversation with you earlier this week."

"There is a possibility that in the presentation of its case in the Clayton Act proceeding instituted by the
"Board against Transamerica Corporation, attorneys for the Corporation will call an economist as a witness. If that is done it may prove to be desirable for you to be in San Francisco to advise with Mr. Townsend on his cross examination and at some point to take the stand in rebuttal of the economist's testimony. There is no indication that the case will take this course but if it does, it may be necessary for Mr. Townsend to ask you to come to San Francisco on very short notice. In any event it may be that he will need to consult with you by telephone in connection with the matter and in that connection may wish to have sent to you sections of the transcript of the hearings so that you could read them and be prepared to discuss them when he called.

"Accordingly, the Board has approved an arrangement under which you will be compensated at the rate of $50 per day of your employment for the purposes of the Clayton Act proceeding and you will be allowed your necessary transportation expenses and a per diem in lieu of subsistence of $9.00 in accordance with the Board's official travel regulations applicable to heads of divisions, together with such supplemental allowance for other expenses as may be approved by the available members of the Personnel Committee in an amount not exceeding $425.00. This is the same basis as the authorization for your earlier trip to San Francisco.

"Transportation requests should be used to cover all necessary transportation and, if you will keep a memorandum record of the dates, time consumed and expenses, we shall be glad to be of any assistance that we can in the preparation of your expense voucher.

"The Board understands from your conversation with Mr. Young that this arrangement is satisfactory to you and that you will be available to go to San Francisco on short notice or to consult with Mr. Townsend by telephone if a trip to San Francisco does not prove to be necessary. The members of the Board have asked me to express to you their sincere appreciation of your willingness to help in this matter."

Approved unanimously.

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

"In accordance with the request contained in your
"Letter of September 28, 1949, the Board approves the designation of the following employees of your Bank as special assistant examiners for the Federal Reserve Bank of Philadelphia:

J. Elmer Boos
Wm. B. Eagleson, Jr.
Wm. S. Geiger
Frederick C. Rieck
Wm. T. Windsor, Jr.
Jos. E. P. Boneall
Charles A. Koch
Edw. Fitzpatrick
John J. Jones, Jr.
Harmon Gerhart, Jr.
Richard Hallahan
J. Donald Murray
Edw. Weaver"

Approved unanimously.

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

"In accordance with the requests contained in your letters of September 28, 1949, the Board approves the appointment of Samuel A. Derieux and Ernest C. McLean, Jr. as assistant examiners for the Federal Reserve Bank of Richmond. If the appointments are not made effective October 15, 1949, as planned, please advise us.

"It has been noted that Mr. Derieux's indebtedness to a nonmember trust company will be paid at maturity, and that the indebtedness of Mr. McLean to the same institution is on a regular reduction basis."

Approved unanimously.

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

"This refers to your letter of June 17, 1949, and to telephone conversations with representatives of your Bank, concerning your recommendation that nine member banks in the midtown area of the Borough of Manhattan of New York City be granted permission to maintain the reserve requirements of reserve city banks.

"Pursuant to the provisions of Section 19 of the Federal Reserve Act, the Board has taken the following action, effective with the first weekly reserve computation period beginning after the date of this letter:
1. The Board's former ruling, under which a member bank having its head office or a branch in the Borough of Manhattan had to maintain the reserve requirements of central reserve city banks, has been amended so that a bank located in the Borough of Manhattan north of the downtown area as hereinafter described, and having no branch in such downtown area, will be regarded as being located in an 'outlying district' of the City of New York within the meaning of paragraph 5 of Section 19 of the Federal Reserve Act and eligible for permission to maintain the reserves required to be maintained by banks located in reserve cities. The downtown area, member banks in which would continue to be classified as central reserve city banks, is bounded by the Hudson River, the East River, Canal Street from the Hudson River to East Broadway, and Rutgers Street from East Broadway to East River.

2. In view of the character of business transacted by them, as described in your letter, the nine member banks now located north of the downtown area as above-described have been given permission to maintain the reserves required to be maintained by banks located in reserve cities. The names of these banks are as follows:

   The Amalgamated Bank of New York
   Bank of Yorktown
   Clinton Trust Company
   Federation Bank and Trust Company
   The Merchants Bank of New York
   The National Safety Bank and
   Trust Company of New York
   The Pennsylvania Exchange Bank
   Sterling National Bank & Trust
   Company of New York
   Trade Bank and Trust Company

"Please advise each of the banks of the Board's action in the matter, calling its attention to the fact that such permission is subject to revocation by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Secretary's Note: While Mr. Clayton was absent when this action was taken, he indicated before he left that he would vote to approve it if he were present.
Letter to Mr. Sanford, Assistant Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is to acknowledge receipt of your letter of September 13, 1949, regarding arrangements between your bank and foreign correspondent banks for the authentication, by means of a test cipher, of cablegrams, radiograms and telegrams transmitted by such correspondents to your bank.

"It is understood that such arrangements have not heretofore been entered into with foreign banks of two classes, namely, those with which you maintain foreign currency accounts for yourself and other Federal Reserve Banks (Bank of Canada, Bank of England, and Banque de France), and those with which you maintain foreign currency accounts in your capacity as fiscal agent of the United States (Reserve Bank of India, Banco de Mexico, and Banque Nationale Suisse), since you anticipate that you would be requested to give such banks corresponding written agreements and authorizations with respect to cablegrams, radiograms and telegrams which they might receive in your name.

"We understand, however, that you are now prepared to give such corresponding agreements and authorizations, if requested to do so, to those foreign banks with which you have foreign currency accounts abroad for yourself and other Reserve Banks, and that you propose to dispatch letters to those foreign banks, substantially in the form of the specimen copy enclosed with your letter, under which they would give such agreements and authorizations with respect to messages transmitted by them to your bank. We also understand that you have in mind communicating with the Treasury Department for the purpose of ascertaining whether there would be any objection on the part of the Treasury to your giving such written agreements and authorizations, if requested, to those banks with which you maintain fiscal agency accounts.

"The Board agrees that it would be appropriate for your bank to enter into arrangements whereby both classes of foreign banks would give authorizations of the kind described and, therefore, sees no objection to the sending of the proposed letters to the Bank of Canada, Bank of England, and Banque de France, or to your consulting the Treasury Department as to whether there would be any
"objection to your giving corresponding authorizations, if requested, to those banks with which you maintain foreign currency accounts as fiscal agent of the United States."

Approved unanimously.

Secretary.

Approved:

Chairman.