A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, March 22, 1928 at 2:40 p.m.

PRESENT: Governor Young  
Mr. Platt  
Mr. Hamlin  
Mr. James  
Mr. Cunningham  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary  

PRESENT ALSO:  
Mr. Wyatt, General Counsel  
Mr. Wingfield, Assistant Counsel

The Governor stated that special order of business for this meeting would be consideration of a memorandum dated March 14th from the Board's Counsel, submitting a revision of Regulation L, Series of 1926 on the subject of "Interlocking Bank Directorates under the Clayton Act"; the revision being necessary in view of the amendment to the Clayton Act recently enacted and signed by the President on March 9th.

After discussion, the Regulation was amended and adopted in the following form:

Regulation L, Second Series of 1928  
(Superseding Regulation L of 1928)

INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT

Section I. Definitions

Within the meaning of this regulation:

The term "bank" shall include any bank, banking association or trust company organized or operating under the laws of the United States or of any State thereof.

The term "national bank" shall be construed to apply not only to national banking associations but also to banks, banking associations, and trust companies organized or operating under the laws of the United States, including all banks and trust companies doing business in the District of Columbia, regardless of the sources of their charters.

The term "resources" shall be construed to mean an amount equal to the sum of the deposits, capital, surplus, and undivided profits.
The term "State bank" shall include any bank, banking association, or trust company incorporated under State law.

The term "private banker" shall apply to any unincorporated individual engaging in one or more phases of the banking business as that term is generally understood and to any member of an unincorporated firm engaging in such business.

The term "Edge corporation" shall mean any corporation organized under the provisions of Section 25 (a) of the Federal Reserve Act, as amended.

The term "city of over 200,000 inhabitants" includes any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

Section II. Prohibitions of Clayton Act

Under section 8 of the Clayton Antitrust Act—

(1) No person who is a director or other officer or employee of a national bank having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.

(2) No person who is a director in a State bank or trust company having resources aggregating more than $5,000,000 or who is a private banker having resources aggregating more than $5,000,000 can legally serve at the same time as director of any national bank, regardless of its location.

(3) No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause until the expiration of one year from the date of his election or employment.
Section III. Exceptions

The provisions of section 8 of the Clayton Act—

(1) Do not apply to mutual savings banks not having a capital stock
represented by shares.

(2) Do not prohibit a person from being at the same time a director,
officer, or employee of a national bank and not more than one other
national bank, State bank, or trust company, where the entire capital
stock of one is owned by the stockholders of the other.

(3) Do not prohibit a person from being at the same time a class A
director of a Federal reserve bank and also an officer or director,
or both an officer and a director, in one member bank.

(4) Do not prohibit a person who is serving as director, officer,
or employee of a national bank, even though it has resources aggregat-
ing over $5,000,000, from serving at the same time as director, of-
fer, or employee of any number of State banks and trust companies,
provided such State institutions are not located in the same city of
over 200,000 inhabitants as the national bank and do not have resources
aggregating in the case of any one bank more than $5,000,000.

(5) Do not prohibit a person from serving at the same time as di-
rector, officer, or employee of any number of national banks, provided
no two of them are located in the same city of over 200,000 inhabitants
and no one of them has resources aggregating over $5,000,000.

(6) Do not prohibit a person who is not a director, officer, or em-
ployee of any national bank from serving at the same time as officer,
director, or employee of any number of State banks or trust companies,
regardless of their locations and resources.

(7) Do not prohibit a person who is an officer or employee but not
a director of a State bank from serving as director, officer, or em-
ployee of a national bank, even though either or both of such banks
have resources aggregating over $5,000,000, provided both banks are
not located in the same city of over 200,000 inhabitants.

(8) Do not prohibit a person who is an officer or employee but not
a director of a national bank from serving at the same time as director,
officer, or employee of a State bank, even though either or both of
such banks have resources aggregating over $5,000,000, provided both
banks are not located in the same city of over 200,000 inhabitants.

(9) Do not prohibit a private banker or an officer, director or em-
ployee of any bank or a Class A director of a Federal reserve bank
from being at the same time an officer, director or employee of not
more than two other banks within the prohibitions of the Clayton Act,
if there is in force a permit therefor issued by the Federal Reserve
Board.

Exceptions cumulative. — The above exceptions are cumulative.

Section IV. Permission of the Federal Reserve Board
(a) In General. - Section 6 of the Clayton Antitrust Act, as amended by the Acts of May 15, 1916, May 26, 1920, and March 9, 1928, authorizes the Federal Reserve Board to permit any private banker or any officer, director, or employee of any bank, banking association, or trust company, or any class A director of a Federal reserve bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, if in the judgment of the Federal Reserve Board it is not incompatible with the public interest.

(b) When obtained. - Inasmuch as this exception to the prohibitions of the Clayton Act applies only when "there is in force a permit therefor issued by the Federal Reserve Board," it is a violation of the law to serve two or more banks in the prohibited classes before such a permit has been obtained. A permit should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. It may be procured before the person applying therefor has been elected as director or appointed an officer or employee of any bank in the prohibited classes.

(c) Applications for permission. - A person wishing to obtain a permit from the Federal Reserve Board to serve banks coming within the prohibitions of the Clayton Act should -

1. Make formal application on F. R. B. Form 94, or, if a private banker, on F. R. B. Form 94d. Each of these forms is made a part of this regulation.

2. Obtain from each of the banks involved a statement on F. R. B. Form 94a, which is made a part of this regulation, showing the character of its business, together with a copy of its last published statement of condition, and, if a private banker, make a statement on F. R. B. Form 94e showing the character of his or his firm's business.

3. Forward all these papers to the Federal reserve agent of his district, who will attach his recommendation on F. R. B. Form 94b, which is made a part of this regulation, and forward them in due course to the Federal Reserve Board.

(d) Compatibility with the Public interest. - In determining whether the issuance of such a permit would be compatible with the public interest, the Federal Reserve Board will consider:

1. Whether the banks involved are natural competitors;
2. Whether their having the same directors, officers or employees would tend to lessen competition or to restrict credit;
3. Any other facts having a bearing upon the interest of the public in such banks as affected by their having the same directors, officers or employees.

(e) Approval or disapproval. - As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

If the board approves the application, a formal permit to serve on the banks involved will be issued to the applicant.

(f) Hearing. - If it appears to the Board that it would be incompatible with the public interest to grant such permit the Board will so notify the
applicant and will afford him every opportunity to present any additional facts or arguments bearing on the subject before making any final decision in the case.

(g) Effect of permits. - A permit once granted continues in force until revoked, and need not be renewed.

(h) Revocation. - All permits, however, are subject to revocation whenever the Federal Reserve Board, after giving reasonable notice to the persons to whom they were issued and affording them an opportunity to be heard, finds that the public interest requires their revocation.

Section V. Permits under Section 25 of the Federal Reserve Act

With the approval of the Federal Reserve Board, any director, officer, or employee of a member bank which has invested in the stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal Reserve Act, may serve as director, officer, or employee of any such foreign bank or financial corporation.

Applications for approval. - The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

Section VI. Permits to Serve Edge Corporations

With the approval of the Federal Reserve Board -

(1) Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge corporation in whose capital stock the member bank shall have invested.

(2) Any officer, director, or employee of any Edge corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge corporation shall have invested under the provisions of the Edge Act.

Applications for approval. - Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

Telegrams dated March 21st from the Chairman of the Federal Reserve Bank of Philadelphia, March 21st from the Chairman of the Federal Reserve Bank of St. Louis, March 22nd from the Assistant Federal Reserve Agent at
Kansas City, and March 21st from the Chairman of the Federal Reserve Bank of San Francisco, advising that their boards of directors at meetings on the dates stated made no changes in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Report of Committee on Salaries and Expenditures on letter dated March 19th from the Assistant Federal Reserve Agent at Kansas City, advising of the action of the Executive Committee of that bank in voting to extend for a period of four weeks, with full pay, leave of absence on account of illness previously granted Mr. N. R. Oberwortmann, head of the bank's Examination Department; the Board's Committee recommending approval of the salary payment involved.

Approved.

Letter dated March 14th from the Governor of the Federal Reserve Bank of Chicago, transmitting memorandum prepared by the Deputy Governor of that bank with respect to the recent establishment of a call money market in Chicago.

The above letter, having been circulated among all members of the Board, was noted.

Letter dated March 14th from the Deputy Governor of the Federal Reserve Bank of New York, with respect to prospective transactions over the March 15th tax payment period, particularly those affecting the open market investment account.

The above letter, having been circulated among all members of the Board, was noted.

Memorandum from Counsel dated March 22nd, recommending that there be published in the forthcoming issue of the Federal Reserve Bulletin the text
of the amendment to the Clayton Act approved on March 9th, together with a
brief introductory statement relative thereto.

Approved.

Upon motion, it was also voted to include in the forthcoming issue of the Bulletin the text of Regulation L, Second Series of 1928, adopted at this meeting.

Report of Committee on Examinations on letter dated March 16th from the Federal Reserve Agent at Chicago, with reference to the pending merger of the La Grange State Bank and the La Grange Trust and Savings Bank, both member institutions, which will be effected on April 1st under a new charter and will involve a new application for membership in the System; the Committee recommending approval of a suggestion of the Federal Reserve Agent that the filing of the supplemental information usually required of banks applying for membership in the System be waived in this case.

Upon motion, the suggestion of the Federal Reserve Agent was approved.

The Secretary then submitted a request received through the Federal Reserve Agent at Richmond, on behalf of Mr. J. P. Fishburn, prospective nominee for election as Class B Director of that bank, to succeed Mr. Edmund Strudwick, deceased, for a ruling as to whether service by Mr. Fishburn as a member of the State Conservation and Development Commission comes within the prohibitions of the Board's regulation forbidding directors of Federal Reserve banks and branches to hold political office.

After discussion, it was the consensus of opinion that the position held by Mr. Fishburn does not come within the prohibitions of the Board's regulation referred to.

Memorandum from Counsel dated March 13th, submitting draft of letter
to Honorable Eugene Meyer, Farm Loan Commissioner, requesting the views of the Federal Farm Loan Board as to the necessity and desirability of a further amendment to Section 8 of the Clayton Act which would exempt from the provisions thereof officers, directors and employees of Joint Stock Land Banks.

After discussion, the letter to the Farm Loan Commissioner was approved.

The Secretary then submitted a memorandum from Counsel dated February 17th with further reference to the Clayton Act application of Mr. Frank O. Wetmore, involving the First National Bank of Chicago, the First Trust Joint Stock Land Bank of Chicago, the First Trust Joint Stock Land Bank of Dallas and the Chicago Title and Trust Company of Chicago, which application was referred back to the Law Committee at the meeting on January 16th for further consideration of the question whether the Chicago Title and Trust Company is an institution which comes within the provisions of the Clayton Act. In his memorandum, Counsel expressed the opinion that the institution is a "trust company" within the meaning of that term as used in the Clayton Act and that it will be necessary for Mr. Wetmore to sever his connection with one of the four institutions he is now serving, all of which come within the prohibitions of the Clayton Act.

After discussion, Mr. Hamlin moved that the Board defer action on Mr. Wetmore's application in view of the fact that the Board has under consideration recommending to Congress an amendment to the Clayton Act which would exempt joint stock land banks from the provisions thereof.

Carried.

Telegram dated March 22nd from the Federal Reserve Agent at San Francisco, advising that arrangements have been made with the Superintendent of Banks of Arizona whereby he will conduct a simultaneous entry examination of the Valley
Bank of Phoenix on March 31st, in connection with which the Federal Reserve
Bank of San Francisco will make a credit investigation; the Federal Reserve
Agent requesting approval of the arrangement, which involves an extra cost to
the Federal Reserve bank of approximately $300 in the form of a charge for
copies of the report of examination, which will cover the additional expense
to the state department of making the examination.

After discussion, it was voted to approve the arrange-
ment outlined by the Federal Reserve Agent.

The minutes of the meeting of the Federal Reserve Board held on March
14th and 16th were read and approved.

The minutes of the meeting of the Executive Committee held on March 20th
were read and upon motion the actions recorded therein were ratified.

The minutes of the meeting of the Federal Reserve Board held on March
21st were read and approved.

REPORTS OF STANDING COMMITTEES:

Dated, March 21st,

22nd, Recommending changes in stock at Federal Reserve Banks
as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

Dated, March 19th,

21st, Recommending action on applications for fiduciary powers
as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

Dated, March 20th,

21st, Recommending action on applications for admission of
state banks, subject to the conditions stated in the
individual reports attached to the applications, as set
forth in the Auxiliary Minute Book of this date.
Recommendations approved.

The meeting adjourned at 3:40 p.m.

Approved:

Secretary.

Governor.