

A meeting of the Federal Reserve Board was held in Washington on Tuesday, July 11, 1933, at 11:00 a. m.

PRESENT: Mr. Black, Governor  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Thomas  
Mr. Szymczak  
Mr. O'Connor

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. McClelland, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Wingfield, Assistant Counsel  
Mr. Siems, Federal Reserve Examiner

Governor Black stated that Messrs. Shepley, Rehme, Early, and Neill called at his office this morning and discussed with him and Messrs. Thomas and Szymczak the question of the reorganization of the Lafayette South Side Bank and Trust Company of St. Louis, Missouri. Suggestions were made during the discussion, Governor Black stated, as to ways in which the stock of the South Side National Bank could be removed from the assets of the State institution, but the representatives of the bank had advised that, while one or more of the suggestions might be acceptable, their consideration would involve their submission to the subscribers for the common stock of the bank. Governor Black stated that questions as to what the condition of the new bank would be when opened, and the management of the institution, had been discussed also, and that its representatives had stated that if the Board required the removal of the stock of the national bank, they would return to St. Louis and work out a new plan of reorganization for submission to the Board, and that what they desired at this time was a decision from the Board as to whether it will require the State bank to dispose of the stock of the national bank.

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Governor Black added that he had advised the bank's representatives that, before the Board could reach a final conclusion on the application for membership, complete information as to the condition of the bank and its management must be furnished, but that he would present to the Board again the question of the ownership of the stock of the national bank. Governor Black expressed the opinion that, inasmuch as under the provisions of sections 5(c) and 16 of the Banking Act of 1933 a State member bank could not acquire the stock of a national bank, the acquisition of the stock of the South Side National Bank by the proposed State institution and its admission immediately thereafter as a member of the System would be contrary to the spirit and purpose of those sections of the Act.

After a discussion, Mr. James moved that the representatives of the South Side Bank and Trust Company be advised that, as a matter of policy, in view of the provisions of the Banking Act of 1933 prohibiting the acquisition by a State member bank of the stock of corporations, the Board would not be willing to approve the bank's application for membership while it holds the stock of the South Side National Bank.

Mr. James' motion was approved, and it was requested that the Federal Reserve Agent at St. Louis be advised of this action.

The minutes of the meeting of the Executive Committee of the Federal Reserve Board held on June 15, 1933, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meetings of the Federal Reserve Board held on June 20, 23, 28, and 30, 1933, were approved.

The Board then considered and acted upon the following matters:

Telegram dated July 10, 1933, from Mr. Mosher, Secretary of the Federal Reserve Bank of Minneapolis, advising that, at the meeting of the

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board of directors on that date, no change was made in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Telegram dated July 10, 1933, to Mr. Stevens, Federal Reserve Agent at Chicago, approved by seven members of the Board, replying to Assistant Federal Reserve Agent Young's telegram of July 5 with regard to condition number 22 contained in the Board's telegram of June 27, 1933, advising of approval of the application of the Peoples Bank of Bloomington, Illinois, for membership in the Federal Reserve System. The reply stated that the Board amends the condition referred to so as to provide that the bank shall make adequate provision for depreciation in its banking house and furniture and fixtures, in amounts which in any one year shall be not less than 2% of the present carrying value of its banking house and furniture and fixtures.

Approved.

Reply to a letter dated June 30, 1933, from Mr. Newton, Federal Reserve Agent at San Francisco, with regard to the fee to be paid by Federal reserve banks for reports of examination of national banks after June 30, 1933. The reply stated that, inasmuch as the Federal Reserve Board has taken no further action in this matter since its letter of November 25, 1932 (X-7298), the agent's assumption that a fee of \$5.00 for each such report will be effective on and after July 1, 1933, is correct.

Approved.

Reply to a letter dated June 28, 1933, from Mr. Austin, Federal Reserve Agent at Philadelphia, inquiring as to the status, with respect

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to the Clayton Act, of an individual who is serving as a director of two national banks, one of which has resources aggregating more than \$5,000,000, and as a conservator of a third national bank, whose resources also exceed \$5,000,000, the two larger banks being located in the same town and the smaller one being located in a neighboring town. The reply stated that, in view of the fact that one of the two national banks of which the person is a director has resources aggregating more than \$5,000,000, his service of such two banks falls within the prohibitions of section 8 of the Clayton Act, and consequently it is necessary for him to have a permit in order to serve as a director of such banks. With regard to the question whether it is necessary that the individual have a Clayton Act permit covering his service as a conservator, the reply reviewed the provisions of sections 8 and 8A of the Clayton Act, as amended by the Banking Act of 1933, and the provisions of section 203 of the Act of March 9, 1933, authorizing the Comptroller of the Currency to appoint conservators, and stated that, for the reasons outlined in the reply, it appears that a conservator is not a "director, or other officer or employee" of the bank within the meaning of the Clayton Act, and that, consequently, it is not necessary for a person to have a permit under the Clayton Act in order to serve as conservator of a national bank, even though he is also a director, officer or employee of another national bank which comes within the prohibitions of the Clayton Act.

Approved.

Telegraphic reply on July 10, 1933, approved by seven members of the Board, to a letter dated June 21 from Mr. T. J. Cottingham, Manager of the Loan Agency of the Reconstruction Finance Corporation at Birmingham, Alabama, inquiring as to whether a State bank closed prior to June 16, 1933,

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the date of the approval of the Banking Act of 1933, and to be reopened thereafter, may be considered as organized prior to June 16 within the meaning of that act. The reply stated that this question depends to a large extent on the applicable provisions of the laws of the State under which the bank was organized; that, in the absence of detailed information regarding such provisions, the Board is unable to advise definitely whether the bank may properly be considered as organized prior to June 16; but that if, under the provisions of State law, the bank may be reopened under a charter in existence prior to June 16 and without any change in its corporate existence, it would seem that it can properly be considered as a bank organized prior to June 16. The reply also stated that it is assumed from Mr. Cottingham's letter that the bank referred to is located in a place having a population in excess of 6,000 inhabitants; that, in this connection, it may be noted that the provisions of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, with regard to admission to the Federal Reserve System of State banks having a capital of \$25,000, are applicable to only such banks located in places having a population not exceeding 3,000 inhabitants; but that attention is invited to the fact that under the last sentence of section 12B of the Federal Reserve Act, as amended by the Banking Act of 1933, lack of sufficient capital for membership in the Federal Reserve System would not appear to make a bank ineligible for insurance of deposits as a nonmember until July 1, 1936, although this is a question to be passed on finally by the Federal Deposit Insurance Corporation rather than the Federal Reserve Board.

Approved.

Reply to a letter dated June 22, 1933, from Acting Governor Johns

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of the Federal Reserve Bank of Atlanta requesting advice as to the Board's views on the question who is to be considered an "executive officer" of a member bank within the meaning of section 22(g) of the Federal Reserve Act, as amended by the Banking Act of 1933, which prohibits borrowings from a member bank by an executive officer of such bank and requires reports of borrowings by such an executive officer from any other bank. The reply stated that the question whether a person is to be considered an executive officer of a member bank within the meaning of this provision would seem to depend primarily upon the character of his duties and the functions which he actually performs rather than upon his official title or the name of the position which he occupies; that a person having a certain title or holding a certain position in one bank may have duties and may perform functions which would bring him within the meaning of the term "executive officer", while the duties and functions of a person holding a title or position of the same name in another bank might be of such a different character that he would not be regarded as an executive officer of such bank; that it is believed, therefore, that no classification of persons according to their titles or the names of their positions would be an accurate guide in determining whether they are executive officers within the meaning of the provision of law in question; that each case must depend upon the facts involved; and that no general rule can be promulgated with safety. The reply also stated that the law provides a penalty of fine or imprisonment for violations and the determination of the question whether persons should be prosecuted for such violations is a matter entirely within the jurisdiction of the Department of Justice; that the Federal Reserve Board is not specifically authorized to prescribe regulations on this subject; that, in the circumstances, an expression of opinion by the Board on the question

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involved would not afford protection from criminal prosecution, if the Department of Justice, upon consideration of the matter, should take the position that such a person was within the statute and should feel it necessary to prosecute for violation of this provision; and that, accordingly, the Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind.

Approved.

Memorandum dated July 6, 1933, from Mr. Vest, Assistant Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin statements, in the form attached to the memorandum, with reference to the Board's recent rulings as to the right of member banks to continue to hold corporate stocks purchased prior to the enactment of the Banking Act of 1933, and as to the right of member banks to purchase corporate stocks after the enactment of the Banking Act of 1933.

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks requesting that they advise all national and State member banks in their respective districts that the Comptroller of the Currency and the Federal Reserve Board have extended until August 14, 1933, the time within which national banks and State member banks may file with the Comptroller and the Federal reserve banks, respectively, reports of condition of their affiliates called for on July 7, 1933, pursuant to the Banking Act of 1933; that such reports need not be published until they have been filed; that the time within which banks must file their own reports has not been extended; and that both reports of the banks and reports of their affiliates must show their condition as of June 30, 1933.

Approved.

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Governor Black stated that the above telegram was prepared as a result of a conversation which he had with the Comptroller of the Currency following numerous inquiries with regard to the publication of reports of affiliates and to the difficulties which have arisen in connection with the publication of such reports in compliance with the provisions of the Banking Act of 1933, and that, while he had hoped that some means might be found to avoid those difficulties, there is apparently nothing that can be done in the matter except to extend the time as stated in the telegram. A brief discussion of the provisions of the Banking Act of 1933 with regard to the publication of reports of affiliates of member banks followed, but no further action was taken.

Governor Black was then called from the meeting, and Messrs. Paulger, Siems, and Wingfield also left the room.

Upon Governor Black's return he stated that a few days ago Under Secretary of the Treasury Acheson handed him a copy of a cablegram received by the State Department under date of June 30, 1933, from Mr. Hull, Secretary of State, who is in London. Governor Black stated that he had not brought the cablegram to the attention of the Board as Mr. Acheson stated that he saw no reason why any action should be taken thereon at that time because of the uncertainty as to the continuance of the London Economic Conference, but that Mr. Acheson had just called him on the telephone and advised that he had received a cablegram asking for a reply to the earlier message, and, as he had an appointment with the President at 1:30 p. m. today to discuss the matter, he would like to have the Board's reaction to the cablegram before that time. The cablegram referred to, and the document mentioned therein, which were read by Governor Black, are quoted below:



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"GRAY  
LONDON  
Dated June 30, 1933  
Recd 6:30 p. m.

"Secretary of State  
Washington.

"83, June 30, 10 p. m.

"The following inquiry should be transmitted to the Treasury, Federal Reserve Board and the Federal Reserve Bank of New York.

"Is there any objection to adoption by the Conference of Section 4 of B.I.S. Governor's letter of May 7th, copy of which is in the hands of the Federal Reserve Bank of New York, as basis of recommendation to central banks for cooperation. At my suggestion the first sentence will be changed to read: 'The proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain sound credit conditions and so far as within its power a fundamental equilibrium of the balance of payments of its country.' Avoid making minor changes, if you agree in substance, as everyone else has agreed while I have agreed under reservation pending your decision. Please wire promptly as Committee want to report out early next week.

HULL"

"SECTION IV. OF B. I. S. GOVERNOR'S LETTER ON GENERAL PRINCIPLES OF THE WORKING OF THE GOLD STANDARD - MAY 7, 1933.

"In so far as monetary policy is entrusted to Central Banks, the following statements on the general principles of the working of the gold standard seem appropriate:

"a. Primary object of gold being its employment in settling international balances, gold reserves should be concentrated in Central Banks and gold coin should not be put in circulation (gold bullion standard).

"b. The proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining Central Bank policy.

"c. Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

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"d. While gold should be allowed freely to flow out of and into the countries concerned, central banks should always be prepared to buy gold at a publicly announced fixed price, expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.

"e. Central banks should obtain from their market the fullest possible information concerning the demands that might be made upon their reserves.

"f. Since as already stated under b. the proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country, the discretion of each Central bank in regulating the working of the gold standard in its own country should remain unimpaired. Central Banks should, however, recognize that in addition to their national task they have also to fulfill a task of international character. Their aim should be to coordinate the policy pursued in the various centers in order to contribute towards the satisfactory working of the international gold standard system.

"Moreover they should endeavor to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead Central banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

"In pursuing such a policy the Central banks will have done what is in their power to reduce fluctuations in business activity and thereby also undue fluctuations in the purchasing power of gold.

"g. With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and at an agreed policy, Central banks should consult together continuously, each Central bank, in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for Central Bank action designed to harmonize conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realization of the principles set forth in the present note. It should continuously examine the application of the principles of the working of the gold standard and study such modifications thereof as experience may prove desirable."

A general discussion ensued, at the conclusion of which the following letter to Mr. Acheson, to be signed by the Governor, was approved:

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"I am returning telegram from Secretary Hull, together with Section IV of the letter from the Governor of the Bank for International Settlements dated May 7, 1933.

"The Board has considered this matter today and feels that this Section IV is an academic statement of principles pertinent to the Gold Standard on a bullion basis as existent in pre-war days plus the suggestion of an enlargement of Central Bank cooperation in effectuating the application of this Standard.

"The Board is of the opinion that this academic statement of such principles is not applicable under present conditions in the international monetary field and is especially not applicable to monetary conditions in the United States, and feels that such statement of principles subscribed to by our Government would be construed as some pronouncement of intention relative to the Gold Standard, would be unwise for this reason at this time, and might result in a revival of the distressing situation recently prevalent at the conference arising out of the question of stabilization."

Reports of Standing Committee dated July 11, 1933, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 1.</u>		
Kezar Falls National Bank, Kezar Falls, Maine. (Increase in capital, preferred)	30	
First National Bank, Easthampton, Mass. (Increase in capital, preferred, partly offset by decrease in surplus)	30	
Peoples National Bank of Southbridge, Mass. (Increase in capital, preferred, partly offset by decrease in surplus)	29	
Worcester County National Bank of Worcester, Mass. (Increase in capital and surplus)	605	
National Bank of Wrentham, Wrentham, Mass. (Increase in capital, preferred, partly offset by decrease in surplus)	24	
Aquidneck National Exchange Bank & Savings Co., Newport, R. I. (Increase in capital, pre- ferred, and surplus)	180	
First National Bank, Springfield, Vt. (Increase in capital, preferred, partly offset by decrease in surplus)	<u>35</u>	933
<u>District No. 2.</u>		
Athens National Bank, Athens, N. Y. (Increase in capital, preferred, partly offset by decrease in surplus)	12	12
<u>District No. 3.</u>		
First National Bank of Gettysburg, Pa. (Increase in capital, preferred)	15	15

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Applications for ADDITIONAL Stock: (Cont'd)District No. 4.

Third National Bank & Trust Co., Dayton, Ohio.  
(Increase in capital)

Shares

60

60

District No. 5.

First National Bank, Shelby, N. C. (Increase in  
capital, preferred)

150

American National Bank & Trust Co., Danville, Va.  
(Increase in surplus)

1

Planters National Bank in Fredericksburg, Va.  
(Increase in surplus)

1

152

District No. 6.

Hamilton National Bank, Knoxville, Tenn. (Increase  
in surplus)

90

American National Bank, Nashville, Tenn. (Increase  
in capital, preferred, partly offset by decrease  
in surplus)

600

690

District No. 9.

First National Bank, Eagle River, Wis. (Increase  
in capital, preferred, partly offset by  
decrease in surplus)

15

15

District No. 11.

Gainesville National Bank in Gainesville, Texas.  
(Increase in capital, preferred)

60

60

Total1,937Application for SURRENDER of Stock:District No. 11.

First National Bank, Wills Point, Texas.  
(Consolidation of First National Bank, and  
State National Bank)

60

60

Approved.

Thereupon the meeting adjourned

Wesley Morris  
Secretary.

Approved:

E. R. Black  
Governor.