

A meeting of the Federal Reserve Board was held in Washington on Wednesday, January 9, 1935, at 11:00 a. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel.

The Governor stated that following consideration at the meeting of the Board on December 28, 1934, of the question of the appointment of Class C directors and directors at branches of Federal reserve banks, several drafts of a letter to the chairmen of all Federal reserve banks had been prepared on the subject. He then read the last draft of the letter and recommended that it be approved.

Mr. Szymczak moved that the proposed letter be approved.

Mr. James stated that, regardless of the policies stated in the letter, he felt that the present was an inopportune time to send it to the Federal reserve banks and that it should be deferred for six months or so.

A detailed discussion ensued during which Mr. James' suggestion was considered. Reference was also made to the statement contained in the proposed letter that directors of Federal reserve banks and their branches should be men of established reputation and ability to meet their financial obligations, and it was pointed out that the statement did not imply that only men with means should be appointed to membership

1/9/35

on the boards of directors of Federal reserve banks and their branches, but that appointees should have the ability, through earning capacity or otherwise, to meet their financial obligations.

At the conclusion of the discussion, Mr. Szymczak's motion was put by the chair and carried, Mr. James voting "no" for the reason that he felt the letter should not be sent out at the present time. The letter as approved read as follows:

"The Board has been reviewing the questions of general policy involved in the selection of directors of Federal reserve banks and of their branches. In view of the special character of the functions of these institutions and the public interest in them the Board believes that the composition of the boards and the tenure of service of their members are matters of great importance. The Board recognizes that experience gained from participation in the direction of the management of the Federal reserve banks and their branches has its distinct value but it believes that this can be overstressed and that there are special advantages that would come to these institutions from bringing to bear on their management from time to time new points of view and differing backgrounds of experience. In consequence, the Board believes that neither great length of service nor too frequent changes are desirable and has endeavored to find a solution which on the whole and in the long run will be conducive to the best development of the policies of the banks and at the same time protect them against criticisms based either upon the fact or the possibility of crystallization of control of their managements by particular individuals or groups through long continuance in power.

"Therefore the Board has reached the conclusion that six years of service represents the maximum period during which a director should remain continuously in office. It will be guided by this view in future and will not continue in office as directors men appointed by it who have served six or more consecutive years (except in the cases of chairmen of the Federal reserve banks).

"It is also the view of the Board that the welfare of the Federal reserve banks will be served best by directors whose business and financial interests are primarily within and representative of the bank or branch territory for which they are selected rather than of interests controlled or owned outside of such territory. The Board also feels that it is essential that the directors be men of established reputation

1/9/35

"and ability to meet their financial obligations.

"While the Board is aware of the fact that its present regulations provide that directors of branches appointed by the Federal reserve banks shall be men well qualified and experienced in banking, the Board believes that the Federal reserve banks should be at liberty to select other men of high character and standing who are engaged in agriculture, industry or commerce, and it is the intention of the Board to follow uniformly in all districts the policy of selecting as its appointees individuals who are not officers of banks or primarily engaged in banking, although they may be stockholders or directors of banks.

"The Board expects to apply these principles in the selection of directors appointed by it in the future, and is also amending its rules and regulations regarding the appointment of directors of branches of Federal reserve banks which were set forth in its letter of January 29, 1926, X-4516, so as to conform to these principles. A copy of the regulations as revised is attached hereto.

"It may be added in this connection that the reappointments made by the Board to take effect January 1, 1935, of branch directors who have already served six or more consecutive years were for the year 1935 only.

"It will be appreciated if you will bring this letter to the attention of all the directors of your bank and its branches, if any."

RULES AND REGULATIONS

"1. The board of directors of each branch of a Federal reserve bank shall consist either of seven members or of five members, as may be determined by the Federal reserve bank, subject to the approval of the Federal Reserve Board. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal Reserve bank and three by the Federal Reserve Board, and, where the board consists of five members, three shall be appointed by the Federal reserve bank and two by the Federal Reserve Board.

"2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Federal Reserve Board shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks).

"3. All directors shall be citizens of the district and

"shall reside within the territory served by the branch, but at least one of the directors appointed by the bank and one appointed by the Board shall reside outside of the city in which the branch is located.

"4. One of the directors appointed by the reserve bank shall be the active manager of the branch and shall have the title 'Managing Director'.

"5. The term of office for the director chosen by the reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.

"6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Federal Reserve Board and the term of a director appointed by the Federal reserve bank shall expire at the end of each year. No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.

"7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Federal Reserve Board whose term of office expires with the current year.

"8. In the event of a vacancy occurring in the board of directors of a branch of a Federal reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

"9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal reserve banks hold office at the pleasure of the Federal Reserve Board."

At the suggestion of Mr. Miller it was understood that no publicity should be given to the letter other than to print it in the January issue of the Federal Reserve Bulletin with an introductory paragraph.

The Governor then referred to the discussion at the meeting of the Board on December 29, 1934, with regard to the policy of the Board in dealing with Clayton Act applications and to the informal consideration which had been given to the matter by members of the Board since that date and he presented for consideration a draft of a letter to the

1/9/35

-5-

Federal reserve agents at all Federal reserve banks setting forth the policy to be followed by the Board with regard to issuing permits under the Clayton Act.

After discussion, upon motion by Mr. Hamlin, the letter was approved in the following amended form and it was understood that in cases where the Board had advised the applicant that it feels a permit should not be issued and the applicant requests reconsideration of his application, the application should be handled in accordance with the policy set forth in the letter:

"During the past year the process of passing upon Clayton Act applications has made a considerable demand upon the time and consideration of the members of the Federal Reserve Board and they feel that the procedure not only has been cumbersome but has not produced entirely satisfactory results. In addition, they feel that the provisions of section 8A particularly are so sweeping in their terms that they apply to cases which it is believed were not within the primary purpose of the framers of that section, and it will be recalled that last year the Federal Reserve Board recommended that this section be amended but that bills including such amendment, although favorably reported, failed of passage at the close of the last session. The Board has reviewed the situation and it is now its intention to recommend to the Congress that the provisions of the Clayton Act relating to interlocking bank directorates be clarified and otherwise amended.

"With this general idea in mind and pending action by Congress upon the matter at this session, the Board has decided that it will grant applications for permits in all cases in which action has not heretofore been taken by the Board, except that permits will be denied as to banks which are engaged in the same class or classes of business in the same community and are so located as to be in a position to compete substantially. This exception, however, would not apply where the banks which might otherwise be considered competitive institutions are owned or controlled directly or indirectly by the same stockholders. Such permits will be issued or denied in accordance with the general policy laid down in this paragraph in the absence of extraordinary circumstances in particular cases.

"The permits to be issued will be operative only until January 14, 1936 (the second Tuesday in January, 1936), so that it will not be necessary to institute formal proceedings to terminate such permits at the end of the period in any cases in which, in the absence of amendatory legislation, it would be contrary to the Board's policy to continue them in effect.

1/9/35

-6-

"In the event of the failure of Congress at this session to enact any such legislation, it is the purpose of the Board to determine upon some general policy under which applications falling within certain classes of cases may be granted and others not in such classes may be denied."

Mr. Szymczak stated that Mr. Simpson, Deputy Chairman of the Federal Reserve Bank of Chicago, had called him on the telephone and had stated that, in view of the informal understanding had by the board of directors of the bank with the Board's Committee on District No. 7 and the Committee on Salaries and Expenditures in accordance with the Board's letters of April 16, 1934 (X-7863) and November 7, 1934 (X-9013), he felt the Federal Reserve Board was committed to the salary adjustments recommended and informally approved by the Board's committees, and that at the meeting of the board of directors of the bank on Friday, January 11, 1935, it is proposed to approve the proposed adjustments, subject to the formal approval of the Federal Reserve Board.

Mr. Szymczak also stated that Mr. Burke, Acting Chairman of the Federal Reserve Bank of Cleveland, had called on him and had suggested that, because of the special responsibility resting upon Mr. W. H. Fletcher, who had served as Acting Federal Reserve Agent since the resignation of Mr. Williams, it was felt that Mr. Fletcher should be exempted from the policy set forth in the Board's letter of January 5, 1935, and some increase made in his salary in recognition of that responsibility.

Governor Eccles presented a letter dated January 2, 1935, addressed to Mr. Szymczak by Mr. Simpson, Deputy Chairman of the Federal

1/9/35

-7-

Reserve Bank of Chicago, stating that the board of directors of the bank expects to give consideration at its meeting on January 11, 1934, to the designation of Mr. Preston as Chief Deputy Governor as such an arrangement would assist in the efficient operation of the bank, and that Mr. Simpson would like to know if the Board sees any objection to the board of directors making such designation.

After discussion the Secretary was requested to prepare a telegram to Mr. Simpson advising that the Board was expressing its views only because of his inquiry, that such a designation as a part of the title of a deputy governor does not exist in any other Federal reserve bank, and it is felt it would be undesirable to establish a precedent of this kind, and that it appears that the question of seniority can be met without the adoption of a new title.

The Governor also presented a letter dated January 2, 1935, addressed to Mr. Szymczak by Governor Schaller of the Federal Reserve Bank of Chicago, stating that the bank is considering sending two of its officers, a deputy governor and an assistant deputy governor, out in the district after January 15 to contact not only member banks but nonmember banks, to bring to their attention generally the facilities of the Federal reserve bank available to member banks, including industrial loans, and to encourage a thorough canvass of their local communities by the banks to find if any desirable outlet may be developed for the employment of their funds in their home communities. The letter stated also that the Federal reserve bank expects to gather data for its own use regarding the banks and general conditions and that the

1/9/35

-8-

letter was being written to ascertain whether the Board had in mind anything which it might wish to have included in the contemplated canvass.

Governor Eccles stated that he felt an activity along the lines suggested in Governor Schaller's letter might be undertaken to advantage by all Federal reserve banks and that a program should be worked out and suggested to the banks.

Mr. Szymczak was requested to prepare, in consultation with members of the Board's staff, a draft of such a program for consideration at the meeting of the Board on January 16, 1935.

Mr. Hamlin called attention to the fact that the salary of Mr. Daiger, temporary Special Assistant to the Board, was not paid during the period of his absence because of illness beginning December 18, 1934, and he raised the question whether salary should be paid to Mr. Daiger for the period.

After a brief discussion, upon motion by Mr. Miller, the matter was referred to the Governor with power.

Mr. Miller stated that he had held several conferences with Messrs. Meeks and Abell in connection with the preparation of the program of competition for the selection of an architect for the Board's new building and that every effort was being made to have the program ready so that it might be announced on January 15 and that, as it would be necessary for the Board to pass on certain details of the program, it might be necessary to have a special meeting of the Board before that date.

1/9/35

-9-

It was understood that as soon as the program was ready for consideration by the Board a meeting would be called for that purpose.

In this connection, Mr. Miller called attention to the fact that title to the site on Constitution Avenue had not been transferred to the Board and that until the Board acquires title it will not be possible to announce the program of competition. Governor Eccles stated that he had transmitted the Board's letter of December 31, 1934, on this matter to the Secretary of the Treasury with a special memorandum requesting that the transfer of title be expedited and that he would take the matter up again this afternoon.

Mr. Miller also suggested that in order that no difficulties may be created in connection with the announcement of the program of competition, no information should be given to the representatives of the press with regard thereto prior to such announcement.

The minutes of the meetings of the Federal Reserve Board held on December 17, 18, 19, 22, 24, 26, and 27, 1934, were approved.

The minutes of the meeting of the Federal Reserve Board with the Federal Open Market Committee held on December 17, 1934, were approved.

The minutes of the meeting of the Federal Reserve Board with the representatives of the Industrial Advisory Committees held on December 18, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on December 20 and 21, 1934, were approved,

1/9/35

-10-

and the actions recorded therein were ratified unanimously.

The Board then acted upon the following matters:

Memorandum dated January 5, 1935, from Mr. Morrill, Secretary, outlining a plan to improve the unsatisfactory lighting conditions which now exist in the majority of the Board's offices in the Washington Building, and recommending that the Board authorize the purchase and installation of the necessary fixtures and the painting of the ceilings in the offices in the Washington Building where the light is unsatisfactory at a total cost of approximately \$1,142.33, with the understanding that the fixtures are to remain the property of the Federal Reserve Board and that it shall have the right to remove them upon the expiration of its tenancy. The memorandum also recommended that the Board authorize the installation of similar fixtures in other offices of the Board should it become necessary to do so.

Approved.

Telegram to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Your letters January fourth. Board approves appointment as examiners of J. Lawrence Kilduff, William H. Lee and Robert L. Sattler whose appointments as assistant examiners have been previously approved by the Board. Board approves also temporary appointment of the twelve men to be borrowed from National City Bank and Guaranty Trust Company as examiners or assistant examiners in Federal Reserve Agent's department your bank."

Approved.

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

1/9/35

-11-

"The Federal Reserve Board notes from your letter of January 3, 1935, that the board of directors of your bank, at its meeting on January 2, selected Mr. W. W. Smith, President of the First National Bank in St. Louis, Missouri, as a member of the Federal Advisory Council representing the Eighth Federal Reserve District during the year 1935, and the Board approves the allowance of \$1,000 per annum, in lieu of fees and actual expenses, fixed by your directors for Mr. Smith."

Approved.

Memorandum dated January 8, 1935, from Mr. Morrill, Secretary, recommending, for the reasons stated in the memorandum, that the Board approve the payment of the traveling expenses in excess of \$250 incurred by Mr. E. F. Abell, who was employed by the Board for the purpose of making a survey of the space requirements in the Board's new building, during the term of his original employment.

Approved.

Letter to Mr. A. P. Giannini, Chairman, Bank of America National Trust and Savings Association, San Francisco, California, reading as follows:

"Mr. Hamlin has asked me to advise you that your letter of January 2, in regard to the voting permit covering the three banks controlled by Transamerica Bank Holding Company, has been brought to the attention of the Board. Because of the heavy pressure of other matters engaging its attention the Board regrets that it is not in a position at this time to arrange for a hearing on January 16, and it has not had an opportunity to consider what conditions should be imposed in connection with the granting of the general voting permit. The Board, however, will afford you an opportunity for a hearing on these matters before it reaches a conclusion, and at a later date will communicate further with you on this subject."

Approved.

Telegram to the governors of all Federal reserve banks, reading

1/9/35

-12-

as follows:

"In the Board's weekly Federal Reserve bank condition statement, the amount of Federal Deposit Insurance Corporation stock held a year ago will be included in 'All other assets' and items 'Subscription for Fed. Dep. Ins. Corp. stock, paid' and 'Subscription for Fed. Dep. Ins. Corp. stock, called for payment on April 15' in 'All other liabilities'. 'Reserve for contingencies' will be shown as 22,523 for January 10 and January 17, 1934; 'All other assets' as 111,020 on January 10 and 116,990 on January 17; and 'All other liabilities' as 141,872 on January 10 and 150,343 on January 17. Figures for these items for subsequent dates will be furnished by mail."

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Re-letter January 2, 1935. In the circumstances, the Board offers no objection to the declaration of the regular dividend by 'Marine Bancorporation', Seattle, Washington on January 15, 1935, nor to the exercise of its limited voting permit recently granted, provided that Marine Bancorporation will pursue the plans outlined in its letter to you dated December 31, 1934. In the consideration of a general voting permit soon to be undertaken, the Board will request additional information in order to complete its study of this matter. Please advise the corporation accordingly."

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of December 18, 1934, with further reference to the request of Mr. Prentiss N. Gray for a ruling as to the applicability of section 32 of the Banking Act of 1933 to his service as officer and director of J. Henry Schroder Trust Company and as director of Swiss-American Electric Company.

"In its letter of November 2, 1934, the Board stated that, on the basis of the information which had been submitted, it appeared that the company was not 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the intendment of section 32, but that, in this

1/9/35

-13-

88

"connection, no information had been submitted regarding the activities of the company in purchasing, selling or distributing its own shares and other securities.

"The information submitted with your letter of December 18, 1934, relates to the latter question and shows that no shares or other securities of the company are being sold or distributed at the present time and that none have been sold or distributed during the past three years. It also appears that during the past three years the company has repurchased approximately 1 per cent of its outstanding bonds and 8 per cent of its outstanding \$6 Cumulative Preferred stock; and that the repurchased bonds are now held in its treasury and the repurchased preferred shares have been canceled.

"Upon the basis of the foregoing information it appears that the company is not actively engaged in purchasing, selling, or distributing its own shares or other securities, and the Board therefore believes that section 32 of the Banking Act of 1933 is not now applicable to the relationships described in the first paragraph of this letter."

Approved.

Thereupon the meeting adjourned.

Robert Morie
Secretary.

Approved:

W. S. Charles
Governor.