

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 11, 1936, at 4:45 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. McKee
Mr. Ransom
Mr. Morrison

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics

Chairman Eccles stated that, in view of the necessity for action by the boards of directors of the various Federal reserve banks to amend the by-laws of the banks to bring them in conformity with the provisions of the Banking Act of 1935, he had felt that an opportunity was afforded to the Board to make certain suggestions to the banks as to desirable provisions in the by-laws in the interest of uniformity and more effective operation of the banks; that he had requested counsel to review the by-laws of the respective banks and prepare letters to the chairmen of the boards of directors of the Federal reserve banks transmitting these suggestions; that before these letters could be prepared in final form it would be necessary for the Board to reach a decision as to certain suggestions proposed for inclusion in the letters; and that this meeting had been called for that purpose.

Mr. Wyatt stated that section 14(d) of the Federal Reserve Act requires that the Federal reserve banks establish discount rates every four-

2/11/36

-2-

teen days, or oftener if deemed necessary by the Board; that this provision raises the question whether such rates must be established by the board of directors or whether they might be established by the executive committee; that he was not prepared to take the position that the provision of law referred to required the board of directors to establish discount rates, but that he was inclined to the opinion that the fixing of discount rates was a matter which should not be delegated to the executive committee; that he felt it would be advisable for the directors to meet every fourteen days in order to remove any question as to the legality of the rates fixed; and that for the purpose of the preparation of the letters requested by Chairman Eccles he desired to know whether the Board wished to have included in the letters suggestions (1) that the by-laws provide for meetings of the board of directors every fourteen days, and (2) that the provision of the by-laws permitting the executive committee to fix discount rates be eliminated. He also requested instructions as to whether the proposed letters should suggest (3) that the executive committee of the bank consist only of directors, and (4) that the chairman of the board also be chairman of the executive committee.

At the conclusion of a discussion, it was voted unanimously that the proposed letters should contain a suggestion that the by-laws be amended to provide that the executive committee of the bank shall consist exclusively of directors, one of whom

2/11/36

-3-

shall be the chairman of the board, but that no reference should be made in the letters to the other three points under discussion.

Upon motion by Mr. Morrison, it was agreed unanimously that the letters, prepared in accordance with the above action, should be sent out without further submission to the Board.

At this point Messrs. Thurston, Wyatt and Goldenweiser left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letters to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the New York bank on February 6, and by the Cleveland, Chicago and Dallas banks on February 7, 1936, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letter of January 24, the Board approves the reappointment by the board of directors of the Federal Reserve Bank of Chicago, as members of the Industrial

2/11/36

-4-

"Advisory Committee, of Messrs. Max Epstein, Howard Greene, George W. Young and R. R. Monroe for the year ending February 28, 1937.

"It is noted that the Executive Committee of your bank will designate, subject to the approval of the Board of Governors of the Federal Reserve System, a member to succeed Mr. Wm. R. Odell, Jr. on March 1, 1936."

Approved unanimously.

Letter to the governors of all Federal reserve banks, reading as follows:

"An examination of the Board's records indicates that some of the Federal Reserve banks have not been submitting to the Board annually for approval the amount of compensation and allowances to be paid to the member of the Federal Advisory Council and that it has not been the practice of the banks to submit for Board approval the annual payment made to cover expenses of the office of the Council's Secretary.

"In this connection attention is directed to the fact that paragraph 1 of Section 12 of the Federal Reserve Act, relating to the Federal Advisory Council, contains the following provision:

'Each Federal Reserve bank by its board of directors shall annually select from its own Federal Reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Board of Governors of the Federal Reserve System.'

"In accordance with the above provision of the law each Federal Reserve bank should submit to the Board annually for approval the amounts proposed to be paid to the member of the Federal Advisory Council as compensation and allowances. It should also obtain the approval of the Board for any payments it proposes to make to cover the expenses of the Secretary's office of the Federal Advisory Council. If you have not already done so, please submit to the Board for its consideration the compensation and allowances fixed by your board of directors for the Federal Advisory Council member for your district in 1936. Please also submit for the consideration of the Board any payment your bank proposes to make to cover 1936 expenses of the Secretary's office of the Federal Advisory Council."

Approved unanimously.

2/11/36

-5--

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

"Reference is made to your letter of January 21, 1936, relative to the State member banks in your district which are subject to the membership condition set out in the Board's letter of June 30, 1933 (X-7469) regarding the maintenance of an adequate ratio of capital and surplus in relation to deposit liabilities.

"It has been noted that on the basis of reserve reports for the 12 months ending November 30, 1935, and the latest available reports of examination, all State member banks in your district subject to such condition have capital and surplus in excess of one-tenth of their average deposit liabilities except Bank of Bethlehem, Delmar, New York, and the State Bank of Ontario, Ontario, New York, which have capital and surplus equal to 9.14% and 8.24% of their average deposit liabilities, respectively. In each case, however, you report that net capital structure is in excess of 12% of average deposit liabilities.

"In view of the circumstances, the Board agrees with you that the capital structure of the two banks may be considered to be in substantial compliance with the condition of membership and the Board, therefore, will take no action at this time to require either the Bank of Bethlehem or the State Bank of Ontario to increase its capital or surplus."

Approved unanimously.

Letter to the governors of all Federal reserve banks, reading as follows:

"At their conference in Washington on October 23, 1935, the Governors of the Federal Reserve banks, after considering the topic 'Granting of sick leave to employees in excess of 30 days', adopted the following resolution:

'Voted that a definite procedure for the payment of salaries to employees absent on account of sickness be adopted by the Board of Directors at each Federal Reserve bank and that such procedure be submitted to the Board of Governors.

'It was further voted that Governors Hamilton and Martin are appointed a Committee to discuss this matter with the Board of Governors.'

"In its letter of December 5, 1932, X-7303, the Board stated that its Division of Examinations had been requested, as part of

2/11/36

-6-

"the examination of each Federal Reserve bank, to review all cases where it appeared that leaves of absence with pay in excess of thirty days had been granted to employees on account of sickness, for the purpose of ascertaining whether in each case the approval of the Board of Directors of the bank had been obtained. The members of the above mentioned committee of the Governors' Conference have suggested, however, that such cases might properly be passed upon by the Executive Committee and subsequently reported to the Board of Directors.

"While it is believed desirable that the Board of Directors be fully advised of the facts in each instance of extended leave with pay granted on account of sickness, it will be satisfactory to the Board if such leave is approved by the Executive Committee of the bank and reported to the Board of Directors at its next meeting."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

W. S. Coates
Chairman.