

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 25, 1936, at 10:00 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Parry, Chief of the Division of
Security Loans

During a discussion of the entry to be placed in the policy record in connection with the action taken at the meeting yesterday in adopting Regulation "U", the Secretary was requested to advise the heads of all divisions of the staff that the Board desired that whenever an important matter of policy is submitted to the Board for action it be accompanied by a memorandum from the division submitting the recommendation setting forth the important questions involved, the position of the division on each, and the reasons therefor, together with the reasons which might be advanced for not taking the action recommended, in order that the Board may have such memorandum available for consideration before it takes action and prepares its record thereof.

Reference was made to the action taken by the Board yesterday in adopting a revised supplement to Regulation "T" to become effective March 30, 1936, and Mr. Parry recommended that the effective date be advanced to April 1, 1936. In this connection, it was pointed out that it is ordinarily desirable to make regulations and amendments thereto

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effective on the first day of a month for accounting and administrative reasons, and that if the supplement were made effective on April 1, brokers, dealers and members of national securities exchanges would have additional time in which to acquaint themselves with the new margin formula and to apply it to the accounts on their books at the time of the usual end-of-the-month review of such accounts.

In accordance with Mr. Parry's recommendation, it was voted unanimously to advance the effective date of the revised supplement to Regulation "T" to April 1, 1936.

Chairman Eccles called attention to the fact that it would be necessary for the Board to fill existing vacancies in the Class C directorships at Federal reserve banks and the vacancies on the directorates of branches of Federal reserve banks which are filled by appointments by the Board, and expressed the opinion that, as there was no urgency requiring that such appointments be made at this time, action by the Board might be deferred pending the completion of the transfer to the banks of the non-statutory functions performed by the chairmen and Federal reserve agents. The other members of the Board present indicated agreement with Chairman Eccles' opinion.

There was then presented a letter dated March 18, 1936, from Mr. Paul Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, stating that, at the meeting of the board of directors of the bank on that date, Mr. John S. Wood was appointed as vice president of the bank for the period from May 1 to December 31, 1936, inclusive, the duties to be assigned to him to be the supervision of the examination

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work of the bank, relations with banks, and other duties of an executive nature to be defined by the board of directors. The letter also suggested that a salary at the rate of \$17,000 per annum would be proper for Mr. Wood in the new position and requested that the Board indicate whether a salary at that rate would meet with the approval of the Board, and that, in the event the Board was not willing to concur in the suggestion of the directors with regard to Mr. Wood's salary, it reserve definite conclusions until a committee of directors could confer with the Board.

After a discussion, during which it was indicated as the feeling of the members present that the salary proposed for Mr. Wood would be out of line with salaries for comparable positions at other Federal reserve banks, the Chairman was authorized, upon motion by Mr. Broderick, and by unanimous vote, to address a letter to Deputy Chairman Dillard advising him that the Board was unwilling to approve a salary at the rate of \$17,000 per annum for Mr. Wood, but, in the event the board of directors of the bank felt the appointment of Mr. Wood was in conformity with the policy underlying the survey of the organization of the Federal reserve bank which was now being conducted and with the transfer to the bank of the non-statutory duties performed by the chairman and Federal reserve agent, the Board was willing to approve, for the period from May 1 to December 31, 1936, inclusive, a salary at the rate of \$12,000 per annum for Mr. Wood if fixed by the board of directors of the bank at that rate, and, in lieu of the payments authorized in its letter of February 26, 1936, to approve the payment of the sum of \$5,000 on April 30, 1936, in cash to Mr. Wood or to the Retirement System for the purpose of increasing the retirement allowance to which he would be entitled under that system upon retirement at the age of 65 years. This action

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was taken with the understanding that Mr. Wood would be retired upon reaching the age of 65 years, and that, if the board of directors of the bank still felt that a conference was desirable, the necessary arrangements would be made upon receipt of advice as to a convenient date.

The meeting recessed and reconvened at 3:00 p. m. with the same attendance as at the morning session.

Mr. Broderick stated that, if agreeable to the Board, he would like to have Mr. Frank J. Drinnen, Federal Reserve Examiner, accompany him on some of his visits to the Federal reserve banks in connection with the survey being conducted of the organizations of the banks. The other members of the Board present indicated that they had no objection to such an arrangement.

There was then presented a memorandum dated March 21, 1936, from Mr. Morrill transmitting a recommendation from Mr. Miller that authority be granted to arrange with a limited number of sculptors of satisfactory standing and reputation for the submission of designs for medallions of the kind described in the memorandum, to be placed at each end of the main lobby in the Board's new building; to determine upon suitable inscriptions to be placed on the panels in connection with such medallions; and to let all necessary contracts therefor; all upon the approval of Mr. Miller.

The members present indicated a favorable attitude towards Mr. Miller's recommendation, but decided that, as the matter was not urgent, action should be deferred pending a meeting of the Board when all of the members are present.

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Mr. Thurston, Special Assistant to the Chairman, entered the room and presented a draft of statement to be released to the press with respect to the action taken by the Board in adopting Regulation "U" and a revised supplement to Regulation "T".

The statement was revised and approved unanimously, in the following form:

"Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934, the Board of Governors of the Federal Reserve System today issued Regulation U relating to loans made by banks on or after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange.

"The regulation is not retroactive. It does not restrict the right of a bank to extend credit, whether on securities or otherwise, for any commercial, agricultural, or industrial purpose, or for any other purpose except the purchasing or carrying of stocks registered on a national securities exchange.

"The regulation does not prevent a bank from taking for any loan collateral in addition to that required by the regulation, nor does it require a bank to reduce any loan, to obtain additional collateral for any outstanding loan, or to call any outstanding loan because of insufficient collateral.

"At the same time, Regulation T, which applies to loans by brokers, dealers and members of national securities exchanges, has been modified so as to make applicable to brokers and dealers the same margin requirements that have been determined for loans by banks on equity securities.

"The maximum loan value applying to registered stocks has been fixed at 45% of current market value which is the percentage now applicable, under Regulation T, to three-fourths of the trading on the exchanges at the present time.

"Attached is a copy of Regulation U and the supplement thereto, both effective May 1, 1936, and also a copy of the revised supplement to Regulation T effective April 1, 1936."

Mr. Thurston then withdrew from the meeting.

The Chairman read a letter received by him today from Congressman Herman P. Kopplemann in which he quoted excerpts from inquiries received

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by him from organizations in the territory of Hartford, Connecticut, as to the possibility of their receiving financial aid from Federal agencies in meeting losses suffered as a result of the recent flood conditions in that territory, and requesting that the Board find a way to make necessary provision for financial aid.

By unanimous vote, the Secretary was requested to send a letter to President Young of the Federal Reserve Bank of Boston transmitting a copy of the letter from Congressman Kopplemann and stating that the Board is desirous that the bank be as helpful as possible in the situation and suggesting that it take such steps as may be practicable to make known to possible applicants in the flood territory the ability of the bank to meet the needs of established industrial or commercial concerns for working capital on a sound and reasonable basis. It was also agreed that the letter to President Young should state that the Board feels that it is desirable that the bank, in considering applications from the flood area for industrial loans, give as liberal an interpretation to the law as could reasonably be justified.

Also by unanimous vote, the Secretary was requested to address a letter to Congressman Kopplemann advising of the action by the Board and stating that it is assumed that in addition to calling the matter to the attention of the Board he had taken up with other Government agencies the possibility of their lending financial assistance in meeting the situation.

Chairman Eccles stated that he planned to leave Washington tomorrow night for the West and would be away until about April 15, and suggested that the Board appoint a Chairman pro tem to serve during that period. Mr. Broderick suggested that Mr. Szymczak, who is the senior member of the Board in length of service, be elected to act as

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Chairman pro tem. It was pointed out, however, that it was not expected that Mr. Szymczak would return to his office until Saturday and that it was understood that he would also be absent from Washington from April 7 to 12, inclusive, and that, as it was desirable that there be continuity of service by the Chairman pro tem, it would be desirable to select a member of the Board who will be continuously available during the period.

Mr. Ransom moved that, inasmuch as Mr. Broderick had planned to be in Washington during the period referred to, he be elected as Chairman pro tem to serve until the return of Chairman Eccles.

Carried unanimously.

Mr. Ransom presented a letter received by the Board under date of March 21, 1936, from Mr. T. B. McAdams, President of the Union Trust Company of Maryland, Baltimore, Maryland, in which he renewed the request of that institution that the Board amend a condition of membership to which the trust company is subject so as to permit it to eliminate from its published statement as a separate item loans made to the Royal Realty Corporation, a wholly owned subsidiary, to which had been transferred other real estate held by the bank. During a discussion of this matter, Mr. Wingfield, Assistant General Counsel, joined the meeting.

Mr. Ransom moved that the matter be referred to Mr. McKee for recommendation to the Board.

Carried unanimously.

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Mr. McKee presented a memorandum dated February 6, 1936, from Mr. Baumann, Assistant Counsel, transmitting the request of the National Shawmut Bank and Shawmut Corporation, both of Boston, Massachusetts, that the Board determine that they are not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, and that the Board amend the standard form of agreement required to be executed by holding company affiliates as a condition precedent to the granting of general voting permits so as to eliminate a portion of one of the conditions of the agreement which provides that, except with the permission of the Board of Governors of the Federal Reserve System, the holding company affiliate shall not cause or permit any change to be made in the general character of its business or investments; the national bank pointing out that as a national bank its investments are regulated by law and are subject to the supervision of the Comptroller of the Currency, and both holding company affiliates apparently taking the position that the provision involves a detailed supervision by the Board of the investments of the holding company affiliates. The memorandum recommended that the Board decline to determine that the National Shawmut Bank and the Shawmut Corporation are not engaged directly or indirectly as a business in holding the stock of, or managing or controlling, banks, and that the Board also decline to authorize a modification of the standard form of agreement in the manner requested.

Mr. McKee stated that he had gone over the file very carefully and had discussed the matter with other members of the Board, and that,

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while he was in agreement with counsel's recommendation that the Board should not determine that the two holding company affiliates were not engaged as a business in holding the stock of, or managing or controlling banks, he felt the Board might take the position that, as the character of the business and the investments of the national bank were closely regulated by law and were under the supervision of the Comptroller of the Currency, there was no necessity for including in the standard form of agreement required to be executed by national banks which are holding company affiliates the requirement that the approval of the Board be obtained before any change is made in the general character of the business or investments of the holding company affiliate.

After a discussion, Mr. McKee moved that counsel be requested to prepare a letter to the Federal Reserve Agent at the Federal Reserve Bank of Boston advising that it was unwilling to determine that the two holding company affiliates were not engaged as a business in holding the stock of, or managing or controlling banks, but that it authorized the modification of the form of agreement required to be executed by the National Shawmut Bank in the manner referred to above.

Carried unanimously.

Mr. McKee also moved that counsel be requested to prepare a letter to the Federal reserve agents at all Federal reserve banks advising them that the Board has amended the standard form of agreement required to be executed by holding company affiliates which are national banks as a condition precedent to the issuance of general voting permits to eliminate from such agreements the requirement that, except with the permission of the Board of Governors, such

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holding company affiliates shall not cause or permit any change to be made in the general character of their business or investments.

Carried unanimously.

At this point Mr. Wingfield left the meeting.

Mr. Morrill presented a letter dated March 21, 1936, from the President of the United States Civil Service Commission stating that the President of the United States had directed the Civil Service Commission to prepare, with the assistance of the Council of Personnel Administration, the regulations provided for in the Annual Leave Act and Sick Leave Act, which were approved on March 14, 1936; that March 26 had been fixed as the date for a meeting of the Council of Personnel Administration to consider the preparation of regulations as to hours of duty and annual and sick leave; and that the Commission requested that the head of each agency not now represented on the Council designate a representative to attend the meeting with power to act for the purposes indicated.

In connection with the above matter, it was stated that it had not been decided whether the two acts referred to were applicable to the Board of Governors of the Federal Reserve System, and it was agreed that, while it was desirable to have some one at the meeting in order that the Board might be informed as to the action taken, it should be made clear that such representative was in attendance only as an observer and was without authority to commit the Board.

At the conclusion of the discussion, upon motion by Mr. Broderick, the matter

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was referred to Mr. Morrill for designation of a representative to be present at the meeting with the understanding that he would attend as an observer only and that he would be without authority to commit the Board.

Messrs. Wyatt and Parry left the meeting at this point 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:

Letter to The Surgeon General, United States Public Health Service, Washington, D. C., reading as follows:

"Receipt is acknowledged of Mr. Masterson's letter of March 23, 1936, requesting the Board's permission to enter into negotiations with Mrs. Margaret G. Haworth, an employee of the Board of Governors, with the view to her ultimate transfer to the Public Health Service, and inquiring whether, in the event such negotiations should prove mutually satisfactory, the Board will interpose any objection to such transfer.

"Mrs. Haworth is a valued employee in the Board's organization and the Board would regret to lose her services. However, since it is understood that her services are being sought by reason of her previous experience with your organization, the Board is not disposed to object to such negotiations or to her ultimate transfer. It is assumed, in this connection, that you will advise the Board as soon as a decision has been reached in the premises."

Approved unanimously.

Letter to the chairmen of all Federal reserve banks, which had been prepared in accordance with the action taken at the meeting of the Board on February 26, 1936, and the statement of policy approved at the meeting on February 29, 1936, and reading as follows:

"In considering salaries of officers at the Federal Reserve banks for the year 1936 recommended by the Boards of Directors of the respective Federal Reserve banks, the Board of Governors of the Federal Reserve System, as constituted prior to February 1, 1936, decided to approve salaries of Governors, Deputy Governors, and Assistant Deputy

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"Governors for the period January 1 to February 29, 1936, and of other officers of the bank for the year 1936 at the rates the officers were receiving at the end of 1935, and in so doing expressed the view that there should be no increases in salaries of officers, except in exceptional circumstances, until a thorough and careful analysis had been made of the organizations of the Federal Reserve banks.

"Since entering upon its duties the new Board of Governors has had before it many important questions with respect to the personnel and salary payments of the Federal Reserve banks and the distribution of duties between the Federal Reserve banks and the Federal Reserve agents. After studying these matters the Board decided to approve all recommendations submitted by the respective Boards of Directors with respect to salaries of Presidents, First Vice Presidents, Vice Presidents, and Assistant Vice Presidents for the period March 1 to December 31, 1936, inclusive, at the rates which were being paid to such officers prior to that date, and that no recommendation involving an increase in salary should be approved in the absence of unusual circumstances or a change in position.

"Before taking this action the Board decided to ask the Presidents of the Federal Reserve banks to institute promptly a thorough survey of the organizations and salary payments of their respective Federal Reserve banks and, in order that the Board might fully acquaint the Presidents with the policies it had adopted with respect to these and other matters, it asked them to come to Washington for a conference with the Board of Governors on Monday, March 16. At the conference the Board told the Presidents that it had already instituted a thorough survey of its own organization here in Washington.

"In connection with the distribution of duties between the Federal Reserve banks and the Federal Reserve agents, the Board had in mind a procedure looking toward the placing of the Chairmanships largely upon an honorary basis, with the thought that the routine duties with respect to the issuance of Federal Reserve notes and the holding of collateral security therefor would actually be performed by assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. This would make it possible for the Board to obtain outstanding men of recognized prestige and influence in their communities to act in the capacity of Chairmen and Federal Reserve agents with the understanding that it would not be necessary for them to devote their full time to the position. The procedure contemplated would result in the transfer of the bank examination work and the research work heretofore handled by the Federal Reserve agents to the banking depart-

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"ments with the understanding, however, that such functions would as heretofore be conducted under the general supervision of the Board of Governors. Heretofore, as you know, all appointments of Federal Reserve Examiners have been subject to the approval of the Board of Governors and the Board would expect such appointments, including particularly that of the person in charge of the examination function, to continue to be subject to its approval.

"The Board of Governors at the Conference held in Washington on March 16 and 17 asked the Presidents to review their entire organizations with a view to effecting economies wherever possible to do so without impairing the efficient operation of the banks. The Presidents were also asked to furnish the Board with reports as to how they would propose to effect the transfer of certain duties now handled by the Federal Reserve agents to the banking departments; of the personnel they would expect to place in charge of the several operations; and of the economies which would be effected by making such transfers, in addition to the economies which would be effected by placing the Chairmanships of the Federal Reserve banks largely upon an honorary basis.

"The Board would like to have the report to be submitted by each President include an organization chart which will bring out clearly the principal functions or units into which the bank is to be divided after the transfer of certain duties from the Agent's department to the bank. Such charts should show the name of the officer in charge of each unit and be accompanied by a brief description of the duties of each officer of the bank. Separate charts should be prepared for the head office and each branch. In making these studies it is important that careful thought be given to the operations now handled by branches of Federal Reserve banks with particular reference to the necessity for the branches. If the branches are considered necessary a review of their operations should be made to determine whether any of the operations now being handled by them could be transferred to the head office at a substantial saving in operating cost and without impairing the services which the System is now rendering to member banks and through them to commerce, industry, and agriculture.

"Pursuant to a recommendation made by a sub-committee of a conference of representatives of all Federal Reserve banks the Board has approved a revised personnel classification plan which will necessitate the Federal Reserve banks' classifying all non-official positions in accordance with the revised plan. Under this plan the duties of each non-official position of the bank will be described briefly and this, together with the organization charts, should give the Board of Governors a complete picture of the organization adopted by the Federal Reserve banks following the completion of the survey which the Board has re-

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"requested the Presidents to undertake.

"In making the survey the Board will expect the management of each Federal Reserve bank to give careful consideration to the qualifications and salary of each officer and employee of the bank and to the need for their services. As you have been previously advised, the Board expects that salaries paid to employees of the Federal Reserve banks will not be out of line with salaries paid for corresponding work by local member banks. With respect to salaries of officers, the Board realizes that the duties required of officers of Federal Reserve banks are substantially different from those required of officers in the larger member banks and for that reason the salaries paid by local member banks, particularly to the senior officers of such banks, cannot, of course, be considered as a guide in fixing salaries of the senior officers of the Federal Reserve banks.

"The Board hopes that the survey which the Presidents of the banks have been asked to make will be undertaken and carried forward as promptly as practicable and that the results of the survey will be communicated to the Board at an early date.

"The Board of Governors hopes that each member of your board will take an active interest in the survey of the personnel and operations of the bank, and that they will lend every possible assistance in effecting such reorganizations and economies as may be consistent with the proper functioning of the bank.

"It is requested that a copy of this letter be furnished to each member of your board and to the chief executive officer of your bank."

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. Hoover
Secretary.

Approved:

W. C. C. C.
Chairman.