

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 3, 1936, at 10:30 a. m.

PRESENT: Mr. Broderick, Chairman pro tem
Mr. Szymczak
Mr. McKee
Mr. Ransom

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. Smead, Chief of the Division of Bank
Operations
Mr. Vest, Assistant General Counsel

There was presented a telegram dated April 2, 1936, from Deputy Chairman Moore of the Federal Reserve Bank of San Francisco, stating that at the meeting of the board of directors of the bank on that date the following officers were elected unanimously and their salaries fixed at the rates shown, all effective April 1, 1936:

Wm. A. Day, President	\$30,000
Ira Clerk, First Vice President	18,000
Wm. M. Hale, Vice President	15,000
C. E. Earhart, Cashier	9,000

The telegram also requested telegraphic approval of the appointments and salaries.

Mr. Broderick stated that following the receipt of the telegram yesterday it had been shown to the other members of the Board and Mr. Clayton had been requested to discuss the matter over the telephone with Chairman Eccles in order that his views might be available at this meeting.

Mr. Clayton stated that the Chairman had advised that he felt a salary at the rate of \$30,000 per annum for Mr. Day as President of the Federal Reserve Bank of San Francisco was too high, but that, as the San

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San Francisco bank was one of the larger Federal reserve banks, at least as large if not larger than the Cleveland or Philadelphia banks, he believed a salary at the rate of \$25,000 per annum for Mr. Day would be justified, and that if the Board should decide to limit the salary to the rate of \$23,000 per annum or less it should indicate that consideration could be given to an adjustment after the proposed survey of the organization and personnel of the San Francisco bank had been completed. Chairman Eccles also felt, Mr. Clayton stated, that, while the salaries of the three other officers might seem slightly out of line, he doubted the wisdom of making small adjustments which would have little effect on the total amount saved and would be a source of irritation to the board of directors of the bank.

Mr. McKee moved that the Board approve the appointment of Mr. Day as President and of Mr. Clerk as First Vice President of the Federal Reserve Bank of San Francisco, each for the unexpired portion of the five year term ending February 28, 1941.

Carried unanimously.

There followed a discussion of the salaries proposed by the directors of the Federal Reserve Bank of San Francisco for the four officers referred to, particularly in the light of actions taken by the Board in comparable situations at other Federal reserve banks. Mr. Szymczak stated that, while he favored approval of the salaries fixed for Messrs. Clerk and Earhart, he felt the salary of Mr. Day should not be larger than the salary approved for Mr. Fleming at the time of his appointment as Governor of the Federal Reserve Bank of Cleveland, and that, in view of the

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contemplated transfer of the non-statutory duties of the Federal reserve agent to the operating side of the bank in connection with which Mr. Sargent, Assistant Federal Reserve Agent, probably would be transferred to the bank, the salary of Mr. Hale should not be increased to an amount equalling the salary now being paid Mr. Sargent.

Thereupon Mr. Szymczak moved that the Secretary be requested to advise the Federal Reserve Bank of San Francisco that the Board approves, for the period from April 1 to December 31, 1936, inclusive, the salaries fixed for Messrs. Clerk and Earhart in their new positions; that, in view of the pending survey of the organizations and salaries at the Federal reserve banks including consideration of the plan for the transfer of the non-statutory functions from the Federal reserve agents' departments to the banks, the Board is not willing to approve the salaries fixed for Messrs. Day and Hale, but approves for them, for the period from April 1 to December 31, 1936, inclusive, salaries at the rates of \$23,000 and \$14,000 per annum, respectively, if approved by the board of directors of the bank at those rates.

Mr. Szymczak's motion was put
by the Chair and carried unanimously.

Further consideration was given to the memorandum dated March 24, 1936, from Mr. Morrill with regard to the retirement of seven employees of the Board, which had been discussed at the meeting on March 31 and on which action had been deferred pending circulation of the memorandum among the members of the Board. During the ensuing discussion, it was stated that this matter had been brought to Chairman Eccles' attention before he left for the West and that he had suggested that the question of the retirement of these employees might be considered in connec-

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tion with the general question of the position to be taken by the Board on the retirement of employees of the Federal reserve banks who have reached the age of 65 years.

All of the members present indicated general agreement with the recommendation contained in Mr. Morrill's memorandum, but it was agreed that action thereon should be deferred pending the return of Chairman Eccles.

Mr. Morrill called attention to a letter just received from Vice President Rounds of the Federal Reserve Bank of New York under date of April 2, 1936, with which he inclosed a copy of a letter of the same date from the President of the New York Stock Exchange requesting that the Board postpone until May 1, 1936, the effective date of subdivision (2) of the current supplement to Regulation "T", which became effective on April 1, 1936, and which provides that the maximum loan value of a registered security in a special account of a member, broker or dealer, with another member, broker or dealer, shall be 60% of the current market value of the security. The letter from Mr. Rounds stated that the letter from the New York Stock Exchange had been received late in the afternoon and was being forwarded immediately so as not to delay consideration of the matter by the Board and that the recommendation of the bank would be wired to the Board today.

The Secretary was requested to send Mr. Rounds' letter and inclosure to the Division of Security Loans for consideration and recommendation to the Board following receipt of the recommendation of the Federal Reserve Bank of New York.

At this point Messrs. Thurston, Smead and Vest left the meeting and consideration was then given to each of the matters hereinafter re-

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ferred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on April 2, 1936, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Young, Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"In reviewing the report of examination of the 'Wayne State Bank', Wayne, Michigan, made as of November 5, 1935, it has been noted that the examiner for your bank has stated that the member bank purchased 5 shares of stock in the Wayne County Federal Savings and Loan Association in violation of condition of membership numbered 7 to which the bank is subject.

"This condition of membership provides that, except with the permission of the Board of Governors, the Wayne State Bank shall not purchase or acquire stock of any other corporation of any kind or character, except in satisfaction or protection of debts previously contracted in good faith. Moreover, as you know, under the provisions of section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, State member banks may not lawfully purchase stock in other corporations after June 16, 1933, except in certain limited classes of cases which are not here applicable.

"The Board has heretofore taken the position that the purchase of stock in a building and loan association by a member State bank after June 16, 1933, is a violation of the provisions of section 9 of the Federal Reserve Act. The report of examination of the Wayne State Bank referred to above indicates that the bank purchased the stock in question during the year 1935. Accordingly, it would appear that, unless the circumstances surrounding the issuance of such stock were of such a nature as to indicate that it is not 'stock' within the meaning of the applicable provisions of law and the Board's ruling above referred to, the bank ac-

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"quired the stock not only in violation of condition of membership numbered 7 but also in violation of the provisions of section 9. You are requested, therefore, to advise the bank that it should dispose of this stock as soon as it is possible to do so, and it will be appreciated if you will advise the Board of the action taken by the bank in this connection. However, if you consider that circumstances were involved in connection with the issuance of this stock which would make it desirable for the Board to give further consideration to whether a violation is involved, the Board will be glad to do so."

Approved unanimously.

Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of March 17 regarding the proper treatment of so-called 'commodity drafts' for the purposes of member bank condition reports and reports of deposits subject to reserve. It is noted that these drafts are not payable immediately upon presentation but upon arrival of the shipment of goods against which they are drawn; that certain banks which have been sending out such drafts for collection have been including them in 'cash items in process of collection', Item 2, Schedule I, of condition reports, although they do not include such drafts among deductible cash items in rendering reports of deposits for reserve purposes; and that the sending banks are under the impression that they should treat the drafts as cash items in rendering condition reports because of the fact that the drawers are given immediate credit therefor on the day the drafts are sent out for collection.

"The advice that you have given to member banks, that since the drafts are not payable immediately upon presentation they may not be treated as cash items in process of collection either in condition reports or in reports of deposits submitted for reserve purposes, is correct. With regard to your suggestion that suitable provision be made in the next revision of Form 105 for reporting such drafts, it would appear that the drafts represent advances or loans made by the bank and that, consequently, the amount thereof should be included in 'All other loans', Item 8, Schedule E, of condition reports on Form 105. It is suggested that the banks be so advised, unless there appears to be some objection to this treatment of the drafts in question, in which case your

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"further advice will be appreciated."

Approved unanimously.

Letter to Mr. Stewart, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of February 1 with which you inclosed a letter dated January 30 from the Mercantile-Commerce Bank and Trust Company, St. Louis, Missouri, with regard to the item 'Foreign and domestic bills maturing' shown among 'Other assets' in the bank's condition report for December 31, 1935.

"In the light of the information given in the bank's letter, it would appear that to the extent that the item represents drafts payable immediately upon presentation in the United States and deposit credit has been given therefor, the amount thereof should be treated as cash items in process of collection and included in item 2, Schedule I, of the condition report.

"The classification in condition reports of drafts payable upon arrival, or upon three to ten days' sight, depends somewhat on whether or not individual depositors' accounts have been credited therefor. The bank's letter indicates that the proceeds of such drafts (as well as the proceeds of drafts payable immediately upon presentation) are credited to 'Sundry Depositors' Accounts'. If individual depositors' accounts are actually credited for the proceeds of the drafts, they should be classified as loans and included in item 8, Schedule E, of the condition report; if, however, 'Sundry Depositors' Accounts' is a separate account on the bank's books and individual depositors are not credited with the proceeds of the drafts, then it would appear that no loan or extension of credit has been made to the bank's customers and, in that case, the drafts should be included in 'Other assets'.

"In this connection, it will be appreciated if, at your convenience, you will advise us whether banks commonly make an interest charge for drafts of the latter kind for the period of time that they are in process of collection, or whether they charge a flat commission or fee based on the amount of the drafts without regard to the time required for collection. We shall also appreciate it if you will advise us in what item of the bank's report of earnings and dividends, Form 107, the income on such drafts is included."

Approved unanimously.

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Letter to Mr. R. L. Davis, Chairman, Group One, New York State Bankers Association, Olean, New York, reading as follows:

"Receipt is acknowledged of your letter of March 24, stating that Group One of the New York State Bankers Association will hold its annual meeting on Saturday, May 9, 1936, at the Hotel Statler, Buffalo, New York, and that you would like to have a representative of the Board address the afternoon session if consistent with the Board's policies.

"The Board appreciates your invitation, but in view of the large demands made upon it to be represented at bankers meetings of State and national associations throughout the country and the advance commitments already made by the members of the Board and its staff, the Board regrets that it will not be possible to send a representative to address your annual meeting. However, the Federal Reserve Bank of New York may be in a position to have one of its officers address the meeting, and, in the event you are interested in having a representative of the reserve bank appear on your program, it is suggested that you communicate directly with that institution."

Approved unanimously, together with
a letter to Mr. Harrison, President of
the Federal Reserve Bank of New York, reading
as follows:

"There is inclosed a copy of a letter dated March 24 received from the Chairman of Group One of the New York State Bankers Association, together with a copy of the Board's reply thereto of this date, both of which are self-explanatory.

"It occurred to the Board that your bank might wish to have one of its officers, either from the head office or the Buffalo Branch, appear on the program of the group meeting to be held in Buffalo on May 9, 1936. The matter is therefore being brought to your attention for your information and consideration."

Letter to the George A. Fuller Company, Washington, D. C., reading as follows:

"Receipt is acknowledged of Vice President Distler's

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"letter of March 26, 1936, submitting for the consideration of the Board the name of S. Haskel & Sons., Inc., Brooklyn, New York, as a proposed subcontractor for work on the new building of the Board of Governors.

"I am authorized by the Board to advise you in accordance with Article 31 of the construction contract that the above-named firm is not objectionable to the Board for the purposes stated in your letter." (Granite for Fountains and Spandrels)

Approved unanimously, the sub-contractor referred to having been approved by the Board's architect, the Board's superintendent of construction and by Mr. Miller.

Thereupon the meeting adjourned.

Robert H. Brown
Secretary.

Approved:

John Broderick
Chairman pro tem.