

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 28, 1936, at 10:30 a. m.

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

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. Smead, Chief of the Division of Bank Operations

At the request of the Chairman there was read a memorandum dated April 21, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that (1) Mr. George W. Blattner, a senior member of the Division, be made Assistant Director with an increase in salary from \$6,500 to \$7,000 per annum, (2) the salary of Mr. Walter R. Gardner, Research Assistant, be increased from \$6,500 to \$7,000 per annum, (3) the salary of Miss Margaret Ellis, Research Clerk, be increased from \$3,000 to \$3,500 per annum, and (4) salaries of clerks in the Division be increased as follows:

	<u>FROM</u>	<u>TO</u>
Elizabeth P. Tappy	\$1,440	\$1,680
Constance Seals	1,440	1,560
Lyndall Coffey	1,620	1,680

The reasons for the recommendations were set forth fully in the memorandum.

Chairman Eccles stated that the changes recommended by Mr.

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Goldenweiser had not been made at the end of the year because of the anticipated reorganization of the Division and that the changes were justified in view of the increased activities being undertaken by the Division.

Upon motion by Mr. McKee, the changes recommended were approved unanimously, to become effective May 1, 1936.

There was then presented a memorandum dated April 16, 1936, from Mr. Szymczak recommending:

(1) that the Board grant to any member of the Board's staff who attends the two weeks' resident session of the Graduate School of Banking at Rutgers University a leave of absence of sufficient duration to enable him to attend the session, in addition to the regular annual leave, and,

(2) that the Board assume the transportation expenses of such employees to and from the university.

In connection with this matter, Chairman Eccles referred to the Acts approved by Congress on March 14, 1936, which provide for annual and sick leave for Government employees, and recommended that the Board adopt similar leave provisions to apply to members of its staff and that the Federal reserve banks be advised that the Board approves such provisions for the Federal reserve banks with the understanding that the boards of directors may approve leave for officers and employees of the respective banks within the limits of such provisions.

During a discussion of the matter, views were expressed to the effect that the policies of the Federal reserve banks with regard to

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leave for their officers and employees differ substantially; that the banks probably had prepared their vacation schedules for the current year; and that before any action was taken by the Board with regard to the leave schedules of the Federal reserve banks the Board should have current information with regard to the present practices of the Federal reserve banks in that connection.

At the conclusion of the discussion, upon motion by Mr. McKee and by unanimous vote, the Board decided that, effective January 1, 1936, officers and employees of the Board of Governors of the Federal Reserve System may be granted under the existing procedure (1) twenty-six days annual leave with pay during each calendar year exclusive of Sundays and holidays, the part of such leave remaining unused in any year to be accumulated for succeeding years until it amounts to not exceeding sixty days, and (2) cumulative sick leave with pay at the rate of $1\frac{1}{4}$ days per month, the total accumulation not to exceed ninety days; that temporary employees may be granted annual leave at the rate of $2\frac{1}{2}$ days for each month of service and sick leave at the rate of $1\frac{1}{4}$ days for each month of service; and that the Secretary or an Assistant Secretary of the Board may approve sick leave with pay for 30 days beyond accrued sick leave in cases of serious illness or disability upon recommendation of the head of the division. It was understood that pending the adoption of the general leave regulations now being prepared by the Government departments, no revision would be made in the existing leave regulations of the Board as changed by the above action.

Upon motion by Mr. McKee and by unanimous vote, it was also decided to take no action at the present time with regard to leave granted to employees of the Federal reserve banks, and Mr. Smead was requested to obtain from all Federal reserve banks full information with regard to the present leave schedules for all classes of

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employees of the respective banks, the rules and circumstances under which leave is granted, and the policy of the board of directors of the bank in making exceptions to the approved schedules.

Mr. Szymczak moved that the recommendations contained in his memorandum, referred to above, with regard to leave and payment of traveling expenses of members of the Board's staff attending the resident session of the Graduate School of Banking at Rutgers University be approved.

Carried unanimously, with the understanding that employees who attend the courses will be expected to submit to the Board written reports covering their attendance at the session.

Mr. Szymczak called attention to a letter received by him under date of April 24, 1936, from President Harrison of the Federal Reserve Bank of New York, stating that the bank had selected three representatives to attend the resident session of the Graduate School of Banking at Rutgers University from June 20 to July 2, 1936, and that it was proposed to pay the registration fee, the resident and extension tuition fee, and the dormitory and dining hall charges, amounting to \$136.00 for each employee, and, subject to the approval of the Board, to grant the officers and employees of the bank attending the session a leave of absence with pay in addition to their full regular vacation. The letter stated that specific approval of such extension of annual leave beyond the regular vacation period was being requested for the reason that the Board's letter of April 16, 1936 (X-9550), left the bank in some doubt as to whether it intended that the employees representing the bank at the summer session, or attending as delegates the annual confer-

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ence of the American Institute of Banking, should do so upon their vacation time.

The Secretary was requested to advise President Harrison that the Board's letter of April 16, 1936 (X-9550), should be interpreted as authorizing the Federal reserve banks to grant such leave, exclusive of the regular vacation period, as may be necessary to enable employees to attend the Graduate School of Banking or to attend as delegates the annual conference of the American Institute of Banking, and that, in accordance with this interpretation, the Board interposes no objection to the extension of leave proposed to be granted to the three representatives of the bank attending the Graduate School of Banking.

In connection with this matter it was understood that Mr. Szymczak would investigate the desirability of adopting a procedure under which selections of employees of Federal reserve banks to attend the annual session of the Graduate School of Banking would be on a basis of merit as determined during the preceding year.

Mr. Broderick stated that Mr. Charles R. Gay, President of the New York Stock Exchange, had called him on the telephone and had expressed a desire to meet with the Board at a convenient time during the current week.

It was agreed unanimously that Mr. Broderick should advise Mr. Gay that the Board would be glad to meet with him at 10:30 a. m. on Thursday, April 30, 1936.

Chairman Eccles referred to the informal discussion by the members of the Board of a letter received from the Deputy Chairman of the Federal Reserve Bank of Boston under date of April 15, 1936, transmitting

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the request of the board of directors of the bank that Mr. Curtiss be redesignated as Chairman and Federal Reserve Agent at the bank for the remainder of the year on an honorary basis. Chairman Eccles stated that the suggestion had been made that if such action were taken by the Board with regard to Mr. Curtiss it should also be taken with regard to the Federal Reserve Agents at New York, Philadelphia and Dallas, whose designations also terminate on April 30, 1936, and he suggested that the Board consider what action it should take on the matter.

At the conclusion of a discussion, Mr. Broderick moved that, upon ascertainment by the Chairman that they will accept the continuance of their designations on an honorary basis, the Board continue on such basis for the period from May 1 to December 31, 1936, the designations of Messrs. F. H. Curtiss, J. H. Case, R. L. Austin and C. C. Walsh, as Chairman and Federal Reserve Agent at the Federal Reserve Banks of Boston, New York, Philadelphia and Dallas, respectively. It was understood in this connection that in continuing such designations on an honorary basis the payment to the chairmen and Federal reserve agents referred to of the fees provided by the respective banks for other directors for attendance at meetings of the boards of directors, executive committee and other committees of the board of directors would be authorized.

Carried unanimously, with the understanding that the Board's action will have no effect upon the authorization granted by the Board to the respective banks referred to to pay to the Chairman and Federal Reserve Agent upon his retirement or, at his election, to the Retirement System, for the purpose of supplementing the retirement allowance to which he would be entitled under the rules and regulations of the Retirement System, an amount equal to six months' salary.

Reference was then made to the memorandum dated March 24, 1936,

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from Mr. Morrill, which was discussed at the meetings on March 31 and April 3, 1936, with regard to the retirement of six employees in the Federal Reserve Issue and Redemption Division and a messenger in the Division of Examinations, all of whom are past sixty-five years of age. Mr. Morrill stated that the retirement of the six employees in the Federal Reserve Issue and Redemption Division had been recommended by the Comptroller of the Currency and that if action were not taken by the Board requesting the Retirement Committee to permit the retention of the seven employees referred to for an additional period they would be retired as of May 1, 1936. He also stated that none of the employees had been advised that their retirement was being considered and that, in the circumstances, he felt, if the Board should desire to retire them, they should be given sufficient notice and that, accordingly, he would recommend that the Retirement Committee be requested to retain them for a sufficient period to permit of their retirement as of July 1, 1936.

After a brief discussion, it was voted unanimously that Mr. Morrill be authorized to request the Retirement Committee to retain the seven employees in the service for a sufficient period to permit of their retirement as of July 1, 1936; and the payment to the Retirement System as of that date of special contributions as follows for the purpose of increasing the retirement allowances to which the respective employees will be entitled under Option No. 1 (straight life basis) upon retirement was also authorized:

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<u>Name</u>	<u>Amount of Contribution</u>
L. G. Copeland	\$2,250 (six months' salary)
Henrietta T. Brinker	An amount sufficient to increase the regular retirement allowance to \$4.50 on a straight life basis (Option 1) for each month of service, or the actuarial equivalent thereof under any other option available under the Rules and Regulations.
Addie K. Burchard)	An amount sufficient to increase the regular retirement allowance to \$600 per annum on a straight life basis (Option 1) or the actuarial equivalent thereof under any other option available under the Rules and Regulations.
Caroline B. Quesenberry)	
Susan U. Snead)	
Mary L. Soule)	
R. N. Simms)	

In connection with the above matter and at the suggestion of Chairman Eccles, Messrs. Morrill, Smead and Wyatt were requested to formulate, in consultation with Mr. Broderick, a recommendation as to the action to be taken by the Board in connection with the suggestion that a change be made in the present method of paying the expenses of the Federal Reserve Issue and Redemption Division so that the Comptroller of the Currency would be reimbursed by the Board for the cost of the services rendered by the Division and the Board would be relieved of the necessity of carrying the members of the staff of that Division on its payroll and paying directly the various expenses of a non-personal character incidental to the operation of that Division.

Further reference was made to the memorandum submitted to Mr. Broderick by Mr. Smead under date of March 13, 1936, with respect to reimbursement of the Federal Reserve banks by the Treasury for the cost

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of replacing the existing stocks of unissued Federal reserve notes of the 1928 series with an equal number of notes of the 1934 series, and to Mr. Broderick's statement at the meeting on April 17, 1936, that the Treasury Department had reached the conclusion that the present was not an opportune time to seek an appropriation which would enable the Treasury Department to make such replacement. Mr. Smead referred to the fact that the discontinuance of the issuance of Federal reserve notes of the old series was with the understanding that if Congress did not, at the present session, authorize the Treasury to replace the existing stock of notes of the old series with new notes, the question as to whether the Federal reserve banks should resume paying out notes of the old series would be given consideration promptly after the adjournment of Congress. Mr. Smead stated that it would be necessary in the very near future to prepare the program for printing Federal reserve notes during the next fiscal year and that the Federal reserve banks would want to know in that connection whether any of the notes of the old series are to be issued to the Federal reserve banks during the year.

Chairman Eccles stated that he had discussed recently with the Treasury Department the question of replacing the notes of the old series and that, while the Treasury Department was entirely willing to replace the notes upon receipt of authority from Congress, it had been decided that it would not be advisable to seek an appropriation at this time, and that the Department would look into the matter again

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at the next session of Congress and attempt to obtain the necessary appropriation at that time. Chairman Eccles stated that, in view of these circumstances, he would recommend that Mr. Smead be instructed to advise the Federal reserve banks, in connection with the preparation of the program for printing Federal reserve notes during the coming fiscal year, that it would not be practicable for the Treasury Department to obtain the necessary appropriation at the present session of Congress and that, therefore, the question of the replacement of the existing stocks of notes of the old series should be held in abeyance until the next session of Congress.

Chairman Eccles' suggestion was approved unanimously.

Messrs. Thurston, Wyatt and Smead 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:

Telegram to Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated April 24, 1936, from Mr. Smead, Chief of the Division of Bank Operations, submitting the application of Mrs. Eleanor K. Anderson, a file clerk in the Division, for 29 days and 2 hours annual leave from May 20 to June 25, and for 29 days leave without pay

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from June 26 to July 24, 1936, and recommending that the leave requested by Mrs. Anderson be approved in order that she might visit her parents who are temporarily domiciled in Germany.

Approved unanimously.

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

"This refers to your letter of April 18, 1936, requesting information concerning the customary method of relieving a retiring Federal Reserve agent of liability on account of Federal Reserve notes and other property for which he is responsible.

"The Board has not issued any instructions relating to this matter and is unable to advise you concerning the procedure customarily followed at the various Federal Reserve banks. On January 1, 1925, when Mr. Oscar Newton succeeded Mr. Joseph A. McCord as Federal Reserve Agent at Atlanta, these gentlemen executed an instrument stating the amounts of money and property in the various accounts in the Federal Reserve Agent's department as stated by attached certificates from the General Auditor and other officers of the Federal Reserve Bank and its branches. The instrument stated that the amounts shown in the various certificates attached thereto were accepted by both parties as a transfer from the retiring Federal Reserve Agent to his successor. On January 21, 1925, the Board acknowledged receipt of a copy of this instrument without approving or disapproving it.

"On March 1, 1926, when Mr. Isaac Newton succeeded Mr. John Perrin as Federal Reserve Agent at San Francisco, the General Auditor of the Federal Reserve Bank addressed a letter to the retiring Federal Reserve Agent certifying that a stated amount of Federal Reserve notes was on hand in the vaults of the Federal Reserve Bank of San Francisco and that such amount agreed with the record maintained in the Federal Reserve Agent's department. At the bottom of this letter the new Federal Reserve Agent acknowledged receipt of this amount of Federal Reserve notes. This receipt was attested by the Assistant Federal Reserve Agent and the Assistant Cashier, who constituted joint custodians of the notes. The General Auditor of the Federal Reserve Bank also addressed a letter to the retiring Federal Reserve Agent and sent a copy

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"of such letter to the new Federal Reserve Agent stating the resources and liabilities of the Federal Reserve Agent's department as of the date on which the appointment of the new Federal Reserve Agent became effective. Copies of these letters from the General Auditor were forwarded to the Board for its information and on March 11, 1926, the Board acknowledged receipt of such letters without approving or disapproving them.

"The procedure followed in the above cases has not been passed upon by the Board but is merely set forth herein for your information. It is suggested that you consult counsel for your bank with respect to the action which should be taken to relieve you, upon the termination of your appointment as Federal Reserve agent, of liability on account of Federal Reserve notes and other property for which you are responsible."

Approved unanimously.

Letter to the board of directors of "The Savings Deposit Bank and Trust Company", Elyria, Ohio, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation "H", and the following special condition, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously, together with a letter to Mr. Burke, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of 'The Savings Deposit Bank and Trust Company', Elyria, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

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"It is understood that under the laws of Ohio trust funds held by a bank and deposited in its own banking department are fully protected by statutory preference. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization contained in the Board's letter of March 8, 1935.

"It has been observed from the report of examination of the applying bank, made as of March 7, 1936, that its by-laws provide for a directorate of from 8 to 10, that its 'charter' prescribes that the number of its directors shall be 10, and that the bank actually had 7 directors, one of whom had not qualified to serve. The laws of the State of Ohio provide that the directorate of a State bank 'shall consist of not less than five' members. It is assumed that, in referring to the charter of the applying bank, the examiner had in mind its articles of incorporation, and, since it does not appear that the articles of incorporation and amendments thereto submitted with the application contain any provisions prescribing the number of members of its directorate, it would seem that the articles have been further amended so as specifically to require 10 directors. If this is the case, you are requested to furnish the Board with a copy of any such amendment and to satisfy yourself that the bank takes such action as may be necessary to bring its by-laws and the number of its directors into conformity with the requirements of its articles of incorporation. Moreover, your counsel, prior to the admission of the bank to membership, should satisfy himself that the acceptance of the conditions of membership prescribed for the bank is based upon a validly adopted resolution of its board of directors.

"According to the information submitted with the application, Mr. P. R. Smith, a director of the bank, is also a licensed security salesman for Hopkins & Company, Cleveland, Ohio, a brokerage firm. It is assumed that you will determine whether the relationship comes within the provisions of Section 32 of the Banking Act of 1933, and, if so, satisfy yourself that the necessary action is taken to effect compliance therewith.

"It has been noted from the report of examination as of March 7, 1936, that while the assets of The Depositors' Mortgage Loan Company are segregated from the bank's assets, the mortgage company's business is transacted through the same windows as the bank's business and to a large extent by the same individuals, and that, in the opinion of your examiner, there should be a

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"more complete segregation of the activities of the two organizations. It has been noted also that in a letter dated March 26, 1936, Mr. Evans has suggested to the management of the bank the desirability of removing the activities of The Depositors' Mortgage Loan Company from the banking quarters, and it will be appreciated if you will advise of any action taken to effect a proper segregation of the activities of the two organizations."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Fountain State Bank', Fountain, Michigan, for permission to exercise the fiduciary powers granted to it by the Commissioner of Banking of the State of Michigan under date of August 20, 1930, on the following conditions:

1. Such bank shall not invest funds held by it as fiduciary in obligations of or property acquired from the bank or its directors, officers, employees, members of their families, or their interests, or in obligations of or property acquired from affiliates of the bank.
2. Such bank shall not invest funds held by the bank as fiduciary in participations in pools of mortgage bonds or other securities, and the securities and investments of each trust shall be kept separate from those of all other trusts and separate also from the properties of the bank itself; provided, however, that the Board of Governors of the Federal Reserve System will not object to the collective investment of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary, and if such collective investment is not prohibited by State law or the instrument creating the trust.
3. If funds held by such bank as fiduciary are deposited in its commercial or savings depart-

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"ment or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise the Fountain State Bank, Fountain, Michigan, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting these conditions and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to Mr. R. F. Johnson, Cashier, The First National Bank of Bradley Beach, Bradley Beach, New Jersey, reading as follows:

"This refers to your letter of April 17, 1936, in which you inquire whether the president and vice president of The First National Bank of Bradley Beach, who are inactive, should be regarded as executive officers within the meaning of section 22(g) of the Federal Reserve Act and the Board's Regulation O. You state that the full extent of the duties of these officers is to attend directors' meetings and serve on the Discount Committee in company with other directors.

"At the time of its consideration of Regulation O, the Board was aware of the fact that some banks had honorary or inactive officers who did not actively participate in the management of the bank, but it was the view of the Board that bank officials whose titles may cause the public to consider them executive officers should comply with the rules governing executive officers. Moreover, a president or vice president of a member bank, although actually inactive in the management of the bank, nevertheless is in a position to exercise actively the duties of his office should occasion arise. Also, Congress did not make a distinction in section 22(g) between active and inactive officers and the Board in prescribing a general rule applicable to all member banks alike did not feel that it should make such a distinction when defining the term 'executive officer' pursuant to the authority vested in the Board by the law. Accordingly, the president and every vice president of a member bank have been included within the definition as contained in subsection (b) of Section 1 of the Board's Regulation O whether or not they are active."

Approved unanimously.

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Memorandum dated April 27, 1936, from Mr. Smead, Chief of the Division of Bank Operations, referring to the changes in the Board's Form 107, Report of Earnings and Dividends of State Bank Members, approved by the Board on April 8, 1936, and stating that since that time advice had been received from the office of the Comptroller of the Currency that the form of report of earnings and dividends of national banks had been further modified so as to distinguish between "Profits on securities sold" and "Recoveries on bonds, stocks, and other securities". The memorandum recommended that, in order that the forms of report prescribed by the Board for State bank members and by the Comptroller for national banks may continue to be identical, and in view of the fact that the additional change also will produce data of value, the Board authorize the change to be made in Form 107.

Approved unanimously.

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

"Reference is made to Mr. Pugh's letter of April 20, 1936, submitting for the consideration of the Board the name of the Crab Orchard Stone Company, Glenside, Pennsylvania, as proposed subcontractor for the Bluestone Flagging, Sills and Coping, specified for 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."

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.

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Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved:

W. C. ...
Chairman.