

3/2/33 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 2, 1936, at 10:45 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. Paulger, Chief of the Division of Examinations  
Mr. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Smead, Chief of the Division of Bank Operations  
Mr. Parry, Chief of the Division of Security Loans

There was presented a memorandum dated May 9, 1936, from Mr. Smead with respect to two proposed amendments to the rules and regulations of the retirement system adopted by the board of trustees of the Retirement System of the Federal Reserve Banks at its annual meeting on April 21, 1936. The memorandum recommended that the first proposed amendment, under which the maximum salary to be taken into consideration in fixing retirement allowances shall be fixed by the board of trustees subject to approval by the Board (in connection with which the board of trustees had adopted a resolution fixing the maximum creditable salary at \$18,000 per annum) be not approved, and that the second proposed amendment, under which the calculation of contribution rates for the Federal reserve banks and the Board of Governors of the Federal Reserve System would be based on the average entrance age of employees using the common experience of the twelve Federal

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reserve banks and the Board as a whole as regards death rate, etc., be approved. In connection with the first amendment, the memorandum pointed out that the board of trustees at its annual meeting had instructed the retirement committee to study a suggested amendment to the rules and regulations of the retirement system which would permit retirement allowances to be based on the average salary of the employee during the last ten years of service instead of on the average salary for the full period of service, and to report its findings at the annual meeting of the board of trustees in April, 1937.

After discussion of the reasons for the first proposed amendment and the considerations which would make it inadvisable to approve the amendment at this time, Mr. Szymczak moved that action on the amendment be deferred until after the annual meeting of the board of trustees of the retirement system in April, 1937, when there would be available the report of the retirement committee with respect to the suggested amendment which would permit retirement allowances to be based on the average salary during the last ten years of service, and that, for the reasons stated in Mr. Smead's memorandum, the second proposed amendment be approved.

Carried unanimously.

Reference was then made to a draft of letter to Assistant Federal Reserve Agent Sargent at the Federal Reserve Bank of San Francisco, replying to his letter of May 7, 1936, with respect to the publication by State member banks, pursuant to the provisions of Regulation H, of statements of condition in papers which apparently do not conform to the definition of "newspaper" as contained in the regulation. The draft of reply stated that the Los Angeles Daily Journal, The Daily Commercial News of San Fran-

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cisco, and the Daily Journal of Commerce of Seattle, do not appear to be newspapers with a general circulation, one of the primary functions of which is the dissemination of news of general interest, but that, on the contrary, they specialize in news of particular interest to special groups of persons and have relatively small circulations. The draft of reply requested that, in the circumstances, Mr. Sargent advise the State member banks which had published their condition reports in the papers referred to that, in the future, statements of condition rendered pursuant to calls made by the Federal Reserve Bank of San Francisco should be published in newspapers conforming to the definition of that term contained in the Board's Regulation H. The proposed letter had been circulated among the members of the Board and was brought up for discussion at this meeting at the request of Mr. Broderick.

Mr. Broderick stated that he had suggested that the matter be considered at this meeting for the reason that he felt the Board should not single out individual publications as not complying with the definition contained in the Board's regulation and that, in his opinion, the Assistant Federal Reserve Agent at San Francisco should be advised that the Board was not disposed to rule on the question whether a specific publication meets the requirements of the definition.

During the ensuing discussion it was pointed out that the Comptroller of the Currency is without apparent legal authority to prescribe a requirement that reports of condition of national banks be published in publications which would meet the requirements of the

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definition of "newspaper" contained in the Board's Regulation H, and that, therefore, national banks may publish reports of condition in the three papers referred to. It was also suggested that there were undoubtedly other publications throughout the United States which do not conform to the definition of "newspaper" contained in the Board's Regulation H and that if the Board were to take action in connection with this matter such action should be taken only after a general investigation of the situation.

At the conclusion of the discussion, Mr. McKee moved that, inasmuch as Mr. Szymczak will be in San Francisco next week, the matter be referred to him for discussion with Mr. Sargent in the light of the considerations presented at this meeting.

Carried unanimously.

Chairman Eccles then referred to certain matters which he felt should be given consideration by the Board during June and there was a general discussion of appointments to be made by the Board to fill existing vacancies in Class C directorships at Federal reserve banks.

Mr. McKee presented for consideration a draft of letter to Assistant Federal Reserve Agent Gidney at the Federal Reserve Bank of New York, reading as follows:

"The Board has reviewed the question of extending membership to banks in Puerto Rico and has reaffirmed the position taken in March 1934 that it would not be desirable under existing conditions to extend membership in the Federal Reserve System to include banks in Puerto Rico.

"It is suggested, therefore, that you advise the Banco Popular de Puerto Rico and the Banco de Puerto Rico, both of San Juan, Puerto Rico, accordingly and suggest that they withdraw their applications for membership, in which event, although the applications and the accompanying papers will

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"remain a part of the Board's files, no adverse action thereon will be taken by the Board.

"In advising the banks please state that the Board's position has been taken on the basis of general questions of policy, including the question as to whether the advantages which might be obtained through membership would justify the expense, either to the applicant banks or to the Federal Reserve System, and that the suggestion regarding the withdrawal of the applications is not based upon the asset condition of the banks as reflected in the recent reports of examination."

Mr. McKee stated that the draft of letter had been sent to him first as the member of the Board giving primary consideration to applications for membership in the Federal Reserve System and that, while he was in agreement with the position taken in the letter, he felt the matter should be carefully considered by the Board before a decision was reached.

After a discussion the proposed letter was approved unanimously.

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Smead and Parry 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 1, 1936, were approved unanimously.

Memorandum dated June 2, 1936, from Mr. Morrill stating that Mrs. Margaret A. Rice, Bulletin Clerk in the Office of the Secretary, desired to take a trip to California during the period from July 6 to August 29, 1936, inclusive, and, for this purpose, had requested a leave of absence of 27 days without pay in addition to her regular annual leave. The memorandum recommended that Mrs. Rice's request be granted.

Approved unanimously.

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Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"This will acknowledge receipt of your letter of April 24th, with respect to the employment by your bank of Mr. Phillips Ketchum as associate counsel in the light of the Board's letter of April 15, 1936 (X-9548). The Board has given consideration to the same and in view of the fact that Mr. Ketchum's employment for the year has been approved, and the further fact that compensation for services not within the scope of the usual retainer will be submitted to it for approval, the Board does not consider the present arrangement with Mr. Ketchum inconsistent with its ruling.

"However, in connection with the general subject of Mr. Ketchum's employment, the Board has noted that the annual retainer of \$2400. entitles the bank to consult with him or in his absence with other men in his office about any questions which may arise and to obtain an opinion on them, and that it also covers minor legal proceedings, such as attention to trustee writs, etc., but does not apply to any serious law questions requiring a great deal of study or to litigation or other matters which consume a great deal of time. The Board recognizes that in many instances it is necessary to employ special counsel in connection with special or unusual cases. However, without minimizing the value of either Mr. Ketchum's or Mr. Carrick's services, it would seem, that for the purposes of consultation and other routine legal business of the bank, counsel devoting his exclusive time to the affairs of the bank should perform these functions and the Board experiences some difficulty in reconciling the respective duties of associate counsel with those of your general counsel and his assistant. The Board understands that your letter of April 24th was written without regard to the question here presented and that there may be good reason why the services of associate counsel are needed as a general consultant as well as in the ordinary and minor litigation of the bank, but for future reference and at your convenience it would appreciate additional information with respect to the question here presented as well as your views in the premises.

"The Board has also noted that the services of Mr. Ketchum and of other counsel are utilized in connection with industrial loans or commitments made under the provisions of section 13(b) of the Federal Reserve Act but that in most instances the legal expenses have, by agreement, been paid by the borrower and that it is not contemplated that fees for

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"such services, where such fees are collected from others, will be submitted to the Board for its approval. While there is not sufficient information before the Board at this time for it to have any fixed views with respect to the practice, upon the basis of such information as is before it, the Board entertains some doubt as to the advisability of such an arrangement. Therefore, it will be appreciated if you will give the Board additional information with respect to this arrangement, with particular reference to the circumstances under which the services of such counsel are obtained, the circumstances under which fee arrangements are made with the borrower, and the basis upon which the amounts of such fees are fixed. In this connection, the Board will be interested in knowing the number of cases in which such services have been utilized and the amounts of fees charged."

Approved unanimously.

Letter to the board of directors of the "Rochester State Bank", Rochester, Illinois, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer, or in lieu of the certificates now outstanding, a legend reading substantially as follows:

Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Deferred Certificates issued by the bank to certain depositors who waived the payment of a part of their deposits in 1933 pursuant to Waiver Agreements, copies of which are on file with Rochester State Bank, must be paid.

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"(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 5, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Deferred Certificates to the rights of stockholders.)"

Approved unanimously, for transmission through the office of the Federal Reserve Agent at the Federal Reserve Bank of Chicago.

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

"Reference is made to the application for membership of 'The First National Bank of Ketchikan', Ketchikan, Alaska, which, as you know, has for some time been pending with the Board.

"The Board has again recently reviewed the available information in connection with the application and the general question of policy involved in admitting to membership banks located in Alaska, and is of the opinion that, except for the fact that the latest available report of examination of the bank (as of September 29, 1934) is now too uncurrent to serve as the basis for such action, the application of The First National Bank of Ketchikan should be approved.

"It is understood that the regular examination of the bank will be made by national bank examiners some time this summer, and it is accordingly requested that, following such examination, your Executive Committee submit a recommendation as to the action which should be taken on the application based upon the new report of examination and such other current information as may be available."

Approved unanimously.

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

"Retel June 1 Board extends to July 3, 1936 the time within which 'The State Bank of Coloma', Coloma, Michigan, and to



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"July 6, 1936 time within which 'Coopersville State Bank', Coopersville, Michigan, may accomplish membership in the System."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Pilgrim Trust Company', Boston, Massachusetts, for permission to exercise the fiduciary powers granted to it by the Board of Bank Incorporation of the Commonwealth of Massachusetts under date of January 23, 1936, 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 department 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.

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"You are requested to advise the Pilgrim Trust Company, Boston, Massachusetts, 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. Robert Proctor, Attorney at Law, Boston, Massachusetts, reading as follows:

"This refers to your letter of May 14, 1936, to Mr. Walter Wyatt, the Board's General Counsel, relating to the following provisions of section 11 of the Board's Regulation F, revised effective June 1, 1936:

'Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of \* \* \* the bank \* \* \* .'

"The above provisions are not intended to prohibit the retention of stock or obligations of the trustee bank received as a part of a trust estate upon the creation of the trust. However, the question whether it is the trustee's duty to sell such assets depends upon the facts of the particular case, including the terms of the trust instrument, and, of course, such question should, in any case, receive the trustee's careful consideration in the light of established principles applicable to the administration of trusts.

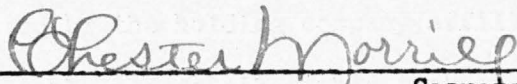
"While your question apparently does not relate to investments which may be made by the trustee, your attention is called to footnote numbered 10 in Regulation F which provides that the above-quoted requirement shall not be deemed to prohibit investments which are expressly required by the instrument creating the trust or by court order."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.