

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 7, 1936, at 10:30 a. m.

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

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

Chairman Eccles stated that in accordance with the understanding reached at the meeting of the Board on June 30, 1936, he had conferred with Mr. L. B. Williams of Cleveland concerning the appointment of a Class C Director of the Federal Reserve Bank of Cleveland and that Mr. Williams had agreed to consider the matter and submit his suggestions early this week; that Mr. Delano is absent from the city and therefore an opportunity had not been presented to consult him in connection with the appointment of a Class C Director of the Federal Reserve Bank of Richmond; and that President McKinney had expressed the opinion that Mr. W. A. Webb would be an ideal selection as a Class C Director of the Federal Reserve Bank of Dallas and had stated that he would look into the matter of his availability for the position and report in the next day or two. Chairman Eccles said that, therefore, he was not prepared at this time to submit recommendations to the Board with respect to the appointment of Class C Directors at the

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Federal Reserve Banks of Cleveland, Richmond and Dallas.

He stated that he had communicated with Mr. Robert E. Wood and Mr. Frank J. Lewis relative to their appointment as Class C Directors of the Federal Reserve Bank of Chicago and that they had advised that, if they could be of any public service by accepting appointment as directors, they would be glad to accept the appointments if tendered.

Chairman Eccles reported further that after a consultation with Mr. Tom K. Smith, First Vice President of the American Bankers Association, who had expressed the opinion that there was no one in the St. Louis territory who would be more satisfactory as a Class C Director of the Federal Reserve Bank of St. Louis than Mr. William T. Nardin, he (Chairman Eccles) had called Mr. Nardin on the telephone and inquired whether he would be willing to accept appointment as Class C Director and Chairman and Federal Reserve Agent at the Federal Reserve Bank of St. Louis, and that Mr. Nardin had stated that he would like to have an opportunity to consider the matter and that he would advise of his decision during the early part of this week.

Chairman Eccles then referred to the question which had been raised at the meeting on June 30, 1936, concerning the eligibility of Mr. A. O. Stewart as a Class C Director of the Federal Reserve Bank of San Francisco in view of his connection with certain joint stock land banks. He stated that he had requested Mr. Wyatt to look into the matter and that Mr. Wyatt had prepared a memorandum on the subject

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under date of July 1, 1936. At the Chairman's request, Mr. Wyatt summarized the results of his investigation, stating that, while the question was not free from doubt, the Board could take the position, in view of the fact that the joint stock land banks were without authority under the law to make new loans and were in the process of liquidation, and on the basis of precedents established by previous decisions of the Board in holding that banks in liquidation were not banks within the meaning of the Clayton Act, that the joint stock land banks in question were not banks within the meaning of the provision of Section 4 of the Federal Reserve Act that no director of Class C shall be an officer, director, employee or stockholder of any bank.

After a discussion, upon motion by Mr. McKee and by unanimous vote, Mr. Robert E. Wood was appointed a Class C Director of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1938, and as Deputy Chairman of the board of directors of the bank for the remainder of the current year.

Upon motion by Mr. McKee and by unanimous vote, Mr. Frank J. Lewis was appointed a Class C Director of the Federal Reserve Bank of Chicago for the unexpired portion of the term ending December 31, 1937.

Upon motion by Mr. Broderick and by unanimous vote, Mr. Walton N. Moore was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco for the period ending December 31, 1936, on which date his term as Class C Director of the bank will terminate, and the Board authorized

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the payment to him, as Chairman and Federal Reserve Agent, of the fees provided by the Federal Reserve Bank of San Francisco for other directors for attendance at meetings of the board of directors, executive committee and other committees of the board of directors.

Upon motion by Mr. Broderick and by unanimous vote, Mr. A. O. Stewart was appointed a Class C Director of the Federal Reserve Bank of San Francisco for the unexpired portion of the term ending December 31, 1938, and as Deputy Chairman of the board of directors of the bank for the remainder of the current year.

The above actions were taken with the understanding that advice of such actions would be withheld temporarily pending the appointment, if it were found that they were willing to serve, of Messrs. Nardin and Webb as Class C Directors of the Federal Reserve Banks of St. Louis and Dallas, respectively, in order that announcement of all of the appointments might be made at the same time.

Mr. Clayton presented memoranda dated July 2 and 6, 1936, from Mr. Parry, Chief of the Division of Security Loans, in which he recommended that the Board authorize the transfer of Mr. Earle W. English, Special Assistant, Securities Exchange Section, Federal Reserve Bank of Chicago, to the Board's Division of Security Loans, as special assistant, with salary at the rate of \$5,000 per annum, effective as of July 13, 1936, or such later date as the transfer becomes effective. The memorandum of July 2 stated that because of his work at the Chicago bank for the last eighteen months on matters handled by the Division

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of Security Loans, Mr. English was one of the few men in the country who would be qualified to be of immediate assistance and that the opportunity to obtain his services was presented at this time because of the decision reached by the Federal Reserve Bank of Chicago, in connection with the reorganization plan of the bank, to assign the work performed by Mr. English to an officer of the bank, effective July 1, 1936, and to discontinue Mr. English's services.

There followed a discussion of the question considered in Mr. Parry's memorandum of July 6 as to whether the work done at the Federal reserve banks under the Securities Exchange Act is to be a responsibility of the bank under the direction of the President who would be accountable for results, or whether such matters as the assignment of individuals to such work by the bank are to be subject to the approval of the Board. In this connection, it was suggested that the Board adopt a procedure similar to the procedures approved at the meeting of the Board on June 3, 1936, with respect to the selection of officers to head up the examination and statistical work at the bank, under which the person chosen to handle the work at each Federal reserve bank under the Securities Exchange Act would be selected with the approval of the Board or after consultation with the Chief of the Division of Security Loans.

Mr. Broderick moved that the above suggestion be approved and that Mr. Parry be requested to prepare a statement of

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procedure for consideration by the Board with the thought that the statement will be incorporated in the letters to the Federal reserve banks advising of approval of their reorganization plans and that a copy of the statement will also be sent to the Federal Reserve Bank of Minneapolis whose reorganization plan has already been approved by the Board.

Carried unanimously.

Mr. Broderick then moved that Mr. Parry's recommendation that Mr. English be transferred to the staff of the Board's Division of Security Loans, with salary at the rate of \$5,000 per annum, effective July 13, 1936, or such later date as the transfer is made, be approved.

Carried unanimously.

Further reference was made to the draft of letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, which was considered at the meeting of the Board on June 2, 1936, with respect to the publication by State member banks in the Twelfth Federal Reserve District of statements of condition in papers of limited circulation which do not conform to the definition of "newspaper" as contained in Regulation H. Mr. Szymczak stated that in accordance with the action taken by the Board at the meeting on June 2, he had discussed the matter with Mr. Sargent, and as it had been pointed out that there were other papers in which reports of condition of State member banks were published and which apparently do not conform to the definition of "newspaper" contained in the Board's regulation, it had been agreed

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that Mr. Sargent should take no action in the matter pending a decision by the Board with respect to all publications of this character.

After a brief discussion the view was expressed that the matter was one upon which no action should be taken by the Board at this time, and it was referred to Mr. Ransom for such further consideration as he saw fit.

There was then presented a letter dated June 30, 1936, from President George L. Harrison of the Federal Reserve Bank of New York as Chairman of the Presidents' Conference. The letter, copies of which had been sent by the Secretary to the members of the Board, read as follows:

"At a meeting of the Board of Governors of the Federal Reserve System with the presidents of the Federal Reserve banks on March 16, 1936, it was understood that the Presidents Conference would be given an opportunity to review a statement of policy adopted by the Board with respect to organization and personnel questions at the Federal Reserve banks and to address a letter to the Board with regard thereto, if that action were thought to be desirable. The statement referred to was forwarded to the chairman of the Presidents Conference by Mr. Morrill on March 18. A copy was sent to each president for his consideration prior to the conference held on May 26.

"The following extract from the minutes of the Conference of Presidents held in Washington on March 16, 1936, expresses the views or reactions of the presidents at that time and it is quoted here because a subsequent, more careful study of the Board's statement or minute confirms these first impressions of the conference.

'The conference discussed at length matters brought up at the joint meeting with the Board of Governors in the morning, with particular reference to a minute prepared by the Board of Governors covering certain of their decisions and views regarding possible reorganizations within the Federal Reserve

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"banks with a view to effecting economy and efficiency in operation. It was the belief of the conference that the minute as drafted gave the impression that the Reserve banks are, in fact, inefficiently or uneconomically operated, although the Board, itself, had called this conference to consider that subject and to suggest a survey of each bank in order to ascertain if and to what extent greater efficiency or economy can be effected. Upon motion of Mr. Young, it was

'VOTED that the chairman of the conference be requested to report to the Board of Governors the views of the conference in the hope that the minute might be corrected so as to eliminate any inference that the Board of Governors was prejudging the situation or else to supplement it in such a way as to point out that any seeming extravagance of operation might be due largely to questions of policy beyond the control or determination of individual Reserve banks.'

"Since the conference in March, all of the Reserve banks have been pursuing a vigorous study of their respective organizations with the purpose of effecting where possible greater economy and efficiency in operation. A preliminary report by each of the presidents at the conference on May 26 has served to support their earlier belief that, except for questions of System policy approved by the Board, the Reserve banks have, on the whole, been operated efficiently and, to the extent that the methods to be used and the number of people to be employed in any department have been wholly within their control, economically. A preliminary estimate of the savings which can be made in the operation of the twelve Federal Reserve banks indicates that the total savings now possible, without risking efficiency or without changes of policy, will probably be less than \$1,000,000 or about 3% of the total expenses of the System. Approximately one-quarter of this amount is attributable to the saving in the salaries of the Federal Reserve agents. Some considerable part of the balance of the savings will be accomplished through a release of personnel, whether immediately or over a period of time, who have been held in the Reserve banks during the period of the depression either as a part of the N. R. A. program, the Share-the-Work program, or as a part of a general System policy the purpose of which was not to accentuate the problem of unemployment more than was necessary.

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"Other savings than those indicated at the meeting on May 26 can, of course, be made if the System as a whole, with the approval of the Board, should determine to abolish some of the services now rendered free of charge to the member banks or to make charges for some of those services such, for instance, as the free shipment of currency back and forth between Reserve banks and the member banks. Further economies might be made through the abolition of certain branch Federal Reserve banks within easy overnight reach of the parent bank or in localities where few, if any, member banks are benefited other than those in the city in which the branch is located. The presidents have appointed a committee to study the whole question of free services and the possible abandonment of some or the fixing of charges for others. It may be that the Presidents Conference will have specific recommendations to make to the Board of Governors in these matters. Also, each Federal Reserve bank was requested to report directly to the Board of Governors as to the wisdom or advisability of maintaining any or all of the branches of such Reserve banks.

"These questions, however, involve broader questions of System policy. Reference is made to them now because, as indicated at the time of the conference in March, the presidents still believe that while some economies in operation can always be effected by assiduous or periodic reviews of the banks' organizations, the greatest opportunity for economy necessarily lies in those other fields involving questions of System policy.

"It was these circumstances which the presidents had in mind when they adopted the minute quoted above and which prompted them to suggest to the Board some modification of or supplement to its statement of policy which seemed to indicate that the Board had failed to take into account those extraordinary considerations which are in large part responsible for increases in personnel or expenses at some of the Federal Reserve banks as well as for the fact that those banks during the depression and pursuant to declared policies relaxed their usual efforts toward economy in personnel, efforts which in ordinary times would be a matter of course.

"In conclusion, however, the presidents have welcomed the opportunity again to review their respective organizations, believing that, as in the past, these reviews should be made more or less continuously, or, at least, periodically, by the Reserve banks with a view to promoting the most effi-

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"cient service at the lowest possible cost. They also believe this study is helpful because of the further opportunity which it affords from time to time to review System policies of operation as a whole.

"It will be appreciated if this letter, prepared by a committee of presidents at the request of the last Conference of Presidents, will be made a part of the Board's record with respect to this subject."

After a discussion, during which it was pointed out that it had been decided that the statement of policy referred to in the above letter should be made a part of the policy record and that it would be necessary for the Board to decide whether reference should be made in the policy record to President Harrison's letter, Mr. McKee moved that the question be left open for consideration when the policy record is taken up for approval.

Carried unanimously.

In this connection the suggestion was made that Mr. Harrison be advised that in accordance with his request his letter would be made a part of the Board's records and that the question of making reference to it in the Board's policy record would be considered later at an appropriate time.

Consideration was given to a draft of a letter to Assistant Federal Reserve Agent Young at the Federal Reserve Bank of Chicago, stating that, after careful consideration of the facts involved, the Board is of the opinion that the service of Mr. Harry A. Wheeler as chairman of the board of the Mercantile Trust and Savings Bank cannot consistently be held to be covered by the permit issued in 1932 authorizing him to serve only as a director of that institution and as

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director of the First National Bank of Chicago, and that, therefore, the Board is unable to see its way clear to rule that he was lawfully serving as chairman of the board of the Mercantile Trust and Savings Bank at the time of the enactment of the Banking Act of 1935, nor that he may lawfully continue to serve in that capacity until February 1, 1939. In connection with the proposed letter it was pointed out that the Board had been advised that the duties of Mr. Wheeler as chairman consist of presiding at meetings of the board and serving as a member of the executive committee.

At the same time consideration was given to a draft of a letter to attorneys for the First National Bank of Colorado Springs, Colorado, with respect to the question whether the definition "executive officer" contained in the Board's Regulation O would apply to Mr. E. P. Shove, chairman of the board of directors of the bank, whose only duty as chairman is that of presiding at meetings of the board of directors. The proposed letter reaffirmed the position taken in the Board's letter of January 31, 1936, to the President of the First National Bank that Mr. Shove was an executive officer within the meaning of that term as contained in the Board's regulation.

At the request of the Chairman, Mr. Wyatt reviewed the points considered by his office in reaching the conclusions set forth in the letters referred to above and stated that the ruling in the case of Mr. Shove was the only one that could be made under Regulation O as now

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in effect. He also said that should the Board take the position that Mr. Wheeler is not an officer within the meaning of the Clayton Act it would be confusing and would weaken the position that the Board has taken in Regulation O that the chairman is an executive officer regardless of whether or not he is active in that capacity. He further pointed out that should the Board hold that a chairman under circumstances such as those in the case of Mr. Wheeler was not an officer within the meaning of the Clayton Act and such individual should borrow from the bank in violation of section 22(g) of the Federal Reserve Act and the Board's Regulation O, any action that the Board might take with regard to the removal of the chairman would be considerably weakened by the position that he was not an officer of the bank within the meaning of the Clayton Act.

During the discussion of the matter it was pointed out that the Board of Governors of the Federal Reserve System alone is authorized and directed to enforce compliance with the Clayton Act; that if Mr. Wheeler should refuse to resign as chairman of the Mercantile Trust and Savings Bank, the Board, in the circumstances, would be loathe to take any action to bring about the discontinuance of his service as chairman.

After a discussion the meeting recessed and reconvened at 3:00 P. m. with the same attendance as at the morning session.

The discussion of the drafts of letters referred to above was resumed and it was agreed that the letter to Mr. Young should be amended to state in effect that while, in the circumstances, the Board regrets the

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situation, there seems to be no legal basis upon which a position can be reached different from that set forth in the Board's letter of March 9, 1936, on this subject.

The letter to Haney and Jackson, attorneys for the First National Bank of Colorado Springs, was approved unanimously as follows:

"This refers to your letter of May 21, 1936, in which you refer to the Board's letter of January 31, 1936, to Mr. William I. Howbert, President of The First National Bank of Colorado Springs, and request that the Board reconsider the matter of excluding, under certain conditions, the chairman of the board of directors of a member bank from the definition of the term 'executive officer', as contained in the Board's Regulation O.

"The Board has noted the contents of your letter and has carefully reconsidered the question of excluding the chairman of the board of directors of a member bank from the definition of the term 'executive officer' where, by resolution of the board of directors or by a provision in the by-laws of the bank, the duties of the chairman are expressly restricted. As stated in the Board's letter to Mr. Howbert, referred to above, the Board at the time of its consideration of Regulation O was aware of the fact that some banks had honorary or inactive officers who did not actively participate in the management of the bank and at that time gave particular consideration to a provision which would have the effect of excluding the chairman of the board of directors or any other executive officer specified in the Board's Regulation O, if the duties of such officer were restricted by a resolution of the board of directors or by a provision in the by-laws of the bank.

"It appears that you are under the impression that the controlling reason why the Board included without qualification the chairman of the board of directors of a member bank as an executive officer was that the general public understands that such a chairman performs the functions and duties of an executive officer. The Board feels that this is a valid reason for including the chairman of the board of directors within the terms of the definition as contained in Regulation O, since in many member banks the chairman of the board of directors is an active executive officer of the bank. Moreover, to exclude the chairman in the manner suggested would be unfair to the public who would be unaware that his duties had

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"been restricted. This, however, is not the only reason which prompted the Board's action. One of the principal purposes underlying the enactment of section 22(g) was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present to a certain extent in the case of inactive or honorary officers, and since Congress did not make a distinction in section 22(g) between active and inactive officers the Board did not feel that it should make a distinction when defining the term 'executive officer' pursuant to the authority vested in the Board by the law. Moreover, it is clearly indicated in the legislative history of section 22(g) that Congress intended that chairmen of boards of directors of member banks should be considered executive officers within the meaning of that section. In this connection, the following is quoted from a debate on the floor of the Senate on the provisions of this section of the law:

'Mr. COUZENS. Mr. President, I would like to ask the Senator from Oklahoma to give his interpretation of an "executive officer." I ask that particularly because it is not an unknown practice to have a man of alleged high standing in the community take the presidency or chairmanship of the board of a bank and receive no salary, and yet use the bank for borrowing purposes. I wondered if his language would include a nonpaid president as an executive officer.

'Mr. GORE. Mr. President, I would request the Senator from Virginia to answer the Senator from Michigan and interpret the significance of the word "executive" as now included in the amendment.

'Mr. GLASS. Mr. President, I would unhesitatingly say that the president of a bank, whether a salaried officer or not, would come within the definition of an "executive officer." The chairman of the board would be an executive officer and the cashier would be an executive officer. I do not think that a director is an executive officer, and I am perfectly certain that if it is intended to comprehend directors we will not have any directors.

'Mr. COUZENS. May I ask the Senator whether or not he would construe as executive officers the members of the executive committee who are only directors and yet pass upon loans?

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"Mr. GLASS. No; it is their business to pass upon loans and not to borrow. I would not regard them as executive officers. They simply pass upon loans. I think the executive officers of a bank are the salaried or nonsalaried officers such as the president, cashier, and chairman of the board, who is usually a higher-priced executive than the president himself.

'But what I desire to do is to exclude the directors of banks from this requirement, because, as the Senator knows--he is a business man and knows better than I--usually the directors of a bank are among its largest depositors.

'Mr. COUZENS. And it is equally true that they are oftentimes among its largest borrowers.

'Mr. GLASS. Well, that is true, though there is a limitation in the existing act about what a director may borrow.

'Mr. COUZENS. As long as we have a record of what is meant by "executive officers" I shall not object.' (Congressional Record, January 25, 1933, 72d Congress 2d Session, page 2626.)

"In view of all the circumstances, the Board does not feel that it would be justified in making the exception requested in your letter, and it is hoped that you will appreciate the Board's position in attempting to carry out the purposes of the law and to deal fairly with all member banks."

Reference was made to the decision reached at meetings during June to consider shortly after July 4 what, if any, action should be taken by the Board with respect to a change in the margin requirements prescribed in Regulations T and U and with respect to increasing reserve requirements of member banks.

At the suggestion of Mr. Broderick, it was agreed that the question of margin requirements should be considered at a meeting to be held on July 14 and the question of excess reserves should be considered at a meeting to be held on July 15 or 16, 1936.

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Mr. Broderick referred to the action taken by the Board at the meeting on March 6, 1936, in requesting that he supervise a survey of the operations and functions of the respective divisions of the Board's organization in Washington and of the present personnel of the Board's staff and salaries of employees, and submit a report thereon. He stated that he had prepared a preliminary report which he would like to circulate among the members of the Board with the understanding that a final report would be submitted for the consideration of the Board at the time the budget for the year 1937 was taken up for consideration.

Upon motion by Mr. Szymczak the procedure suggested by Mr. Broderick was approved unanimously.

Mr. Broderick then reviewed briefly for the information of the Board the progress being made by him in connection with the consideration with the officers of the Federal reserve banks of the reorganization plans to be instituted by the respective banks and in this connection stated that he believed that, in addition to the conferences of counsel and Federal reserve bank auditors heretofore authorized by the Board, conferences of the examiners of the Federal reserve banks and managers of the transit departments of the banks should be held in the fall on dates to be fixed later.

In connection with the question of expenses of the Federal reserve banks, Mr. Broderick stated that consideration was being given by a committee of the Presidents' Conference, which is being assisted by Mr. Smead, Chief of the Division of Bank Operations, to the question of free services rendered by the Federal reserve banks; that the

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Federal reserve banks were making a study of the necessity for continuing their existing branches and agencies of the banks; and that he thought it would be desirable in the near future for a member of the staff of the Division of Examinations to be designated to make a study of the necessity for continuing the branches and agencies of the Federal reserve banks and submit a report to the Board thereon.

The opinion was expressed during the discussion that it would be desirable for the banks to submit to the Board annual budgets of expenses prepared on a uniform basis to be worked out by the Board's Division of Bank Operations.

Chairman Eccles then reported that he had received a personal letter from Mr. W. T. Nardin of St. Louis stating that he would be unable to accept appointment as Class C Director of the Federal Reserve Bank of St. Louis. Chairman Eccles stated that if agreeable to the Board he would address a letter to Mr. Nardin expressing appreciation of the frank manner in which he had written concerning the appointment, that the position would not be filled at the present time, and that it was hoped that Mr. Nardin would keep an open mind on the matter until Chairman Eccles could discuss it with him when he (Chairman Eccles) is in the West later in the summer.

Chairman Eccles' suggestion was approved unanimously.

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

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 2, 1936, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 3, 1936, were approved and the actions recorded therein were ratified unanimously.

Telegram dated July 6, 1936, to Mr. Young, Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Relet July 3. Board extends to August 14, 1936, time within which 'Niles Center State Bank', Niles Center, Illinois, may accomplish membership in System. Please advise bank accordingly."

Approved unanimously.

Thereupon the meeting adjourned.

Walter Merrill
Secretary.

Approved:

W. Steeles
Chairman.