

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 17, 1936, at 11:30 a. m.

PRESENT: Mr. Broderick
Mr. Szymczak
Mr. Ransom
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

Consideration was 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 July 16, 1936, were approved unanimously.

Telegrams to Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on July 16, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated July 11, 1936, from Mr. Broderick submitting the report received from the Federal Reserve Bank of Cleveland covering the survey made by the bank of its operations and organization pursuant to the Board's letter of March 25, 1936, X-9532, as well as a draft of a letter to President Fleming reading as follows. The memorandum and letter have been previously circulated among the members of the Board

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for their consideration:

"Reference is made to your letter of June 10, 1936, in regard to the survey of the operations of the Federal Reserve Bank of Cleveland.

"In the Board's letter of March 25, 1936, it was stated that the Board had in mind a procedure looking toward the placing of the chairmanship largely upon an honorary basis with the thought that the ministerial duties with respect to the issuance of Federal Reserve notes and the holding in custody of collateral therefor would actually be performed by Assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. In this connection, there is attached a copy of a letter to Mr. Walsh, Federal Reserve Agent at Dallas, with respect to the duties to be performed by him as Chairman and Federal Reserve agent on an honorary basis. The Board would expect the principles and procedure set forth in the letter to Chairman Walsh to be followed at all Federal Reserve Banks.

"The Board's letter of March 25, 1936, also stated that the procedure contemplated would result in the transfer of the bank examination work and the research work, heretofore handled by the Federal Reserve agents, to the banking departments with the understanding, however, that such functions would, as heretofore, be conducted under the general supervision of the Board of Governors.

"In order to acquaint you more fully with the conditions under which it is contemplated that the examination and research work will be transferred to the banks, these conditions are set forth below in general terms. With respect to the examination function, the plan contemplates that:

1. All appointments of examiners at the Federal Reserve banks will continue to be subject to the approval of the Board of Governors.
2. The examination department will continue as a separate unit.
3. The examination department will be under the supervision of a Vice President to be designated by the bank after consultation with the Board.
4. The budget for this function will be subject to advance approval of the Board of Governors.

"The Vice President in charge of examinations will be designated as an examiner for the Federal Reserve bank and the Board would expect that official to be responsible directly to the President of the bank and not to another Vice President or other officer.

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"While it is expected that the President will keep informed of the activities and policies of the examination department, it is contemplated that correspondence, other than that relating to policy matters, would be carried on by the Board and its staff directly with the Vice President in charge of examinations. This procedure would be similar to that generally followed with respect to other correspondence about routine operating matters.

"After the transfer is made the Board will expect that the present policy of decentralization of examination work under the ultimate responsibility of the Board will continue, that the examination work will be conducted by the Federal Reserve banks under the general policies adopted by the Board, and that general supervision of the examination work of the System as a whole will continue to be exercised by the Board's Division of Examinations.

"In the past the Federal Reserve agent's department has had custody of the reports of examinations made by the various agencies, which reports have been made available to certain officers of the bank and to certain designated employees in the Credit and Discount and other departments of the bank. When the bank examination department is transferred to the Federal Reserve bank instructions should be issued providing that the bank examination department will continue to have custody of reports of examinations, and proper safeguards should be established in order to preserve the confidential character of such information and to insure that the reports will be made available to officers or employees of other departments only when justified in the performance of their duties.

"The principles to govern the operations of the research and statistical organizations after their transfer from the agent's department to the bank are outlined in the following paragraphs which supersede those transmitted with the Board's letter of August 11, 1926, X-4646.

"Scope and purpose The purpose of the work of the research and statistical divisions of the Federal Reserve banks is to collect and digest information bearing on the problems with which the Federal Reserve System is confronted, either as a matter of current operation or as the basis of the Federal Reserve policies.

"These divisions should provide a necessary service to the officials of the banks and to the Board of Governors of the Federal Reserve System and should also be useful to the general public. Owing to the joint usefulness of these services the Board expects its Division

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"of Research and Statistics to keep in close touch with the activities of similar departments at the Reserve banks, and expects full cooperation in the System's work in this field.

"When a new project in the research and statistical field is in contemplation at a Reserve bank it should be worked out in cooperation with the Board's Director of Research and Statistics, except as to projects of small scope which involve no considerable expense. From time to time the Director of the Board's Division of Research and Statistics may find it necessary to request the cooperation of one or more Federal Reserve banks on research studies.

"Publications The Board wishes to continue the present practice under which all publications of the Federal Reserve banks dealing with matters of more than local interest are submitted to the Board of Governors and issued only with the approval of the Board.

"Budget and personnel The Budget of the statistical and analytical function should continue to be subject to the advance approval of the Board and all appointments of persons to supervisory positions in the statistical and analytical function should be subject to the approval of the Board.

"It is noted that the Supervisor of the Statistical Department is to report to a Vice President. Since such reports contain information which frequently forms the basis of policy action, it is believed that the Supervisor should report directly to the President who, of all the officers in the bank, will require economic information most frequently. This arrangement would also tend to improve the quality of the economic service.

"It is further contemplated that the work heretofore handled by the Federal Reserve agents in connection with administration of the Securities Exchange Act of 1934 will also be transferred to the banking departments with the understanding that this work, like the examination work and the research work, will, as heretofore, be conducted under the general supervision of the Board of Governors. The conditions of transfer contemplated by the plan do not include any specifications as to whether the reserve bank shall have a separate unit for doing this work, as this would appear at present to be necessary at only a few of the Federal Reserve banks, but it is expected that all appointments or assignments of persons to supervisory positions in handling this work at each Federal Reserve bank will be subject to the approval of the Board of Governors.

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"With respect to the statutory duties of the Federal Reserve agent, the Board will appoint, upon the recommendation of the Federal Reserve agent, one or more assistant Federal Reserve agents whose primary duties will be in connection with the issuance and retirement of the Federal Reserve notes and the custody of collateral therefor. When an Assistant Federal Reserve agent is not engaged in work connected with the issuance and retirement of Federal Reserve notes it is assumed that, with the authorization of the Federal Reserve agent and the approval of the President, he will perform other work in the bank which is not inconsistent with his duties as Assistant Federal Reserve agent.

"It is not expected that the Assistant Federal Reserve agent will be charged with responsibility under section 30 of the Banking Act of 1933. The Vice President in charge of examinations should be charged with the responsibility of keeping the Federal Reserve agent advised of violations of law by directors and officers of State member banks and of unsound banking practices in order to enable the Federal Reserve agent to comply with the requirements of that section regarding the issuance of warnings to the directors and officers involved and the certification of facts in such cases to the Board of Governors.

"It has been noted from your letter of June 25, 1936, that Mr. Evans, who has been suggested for the position of Chief Examiner for the Federal Reserve Bank has also been selected to serve as Assistant Federal Reserve agent. The person to be appointed as Assistant Federal Reserve agent should be a careful and conscientious employee of unquestioned integrity who will be competent to handle all work connected with the issuance and retirement of Federal Reserve notes and whose primary duties will be in connection with such work. He need not, however, be a person of the experience and ability required for performing the other statutory duties placed upon the Chairman and Federal Reserve agent. Mr. Burke, Chairman and Federal Reserve Agent, has been apprised of the Board's views in this connection and has been requested to recommend to the Board the appointment of someone satisfactory to him who will meet the Board's requirements in this respect.

"With respect to the proposal that the salary of Assistant Cashier Hays be increased to \$7,500 per annum, the Board feels that action upon this matter should be deferred until the salaries of officers for 1937 come up for consideration and accordingly has not approved the increase.

"The recommendation of your board of directors that the bank in its discretion be authorized to pay to present incumbents a salary of not more than \$100 in excess of the maximum

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"fixed for certain positions in the revised Personnel Classification Plan recently submitted to the Board and the continued payment to Mrs. L. D. Fletcher, Manager of the Pay Roll Department, of an annual salary in excess of the maximum fixed for that position in the revised Plan, is receiving the consideration of the Board and you will be advised of the action taken at a later date.

"As soon as an Assistant Federal Reserve agent has been appointed and has executed the customary bond, the Board of Governors is prepared to authorize the transfer of the examination and research work to the bank and will also then accept the resignations to be submitted by Assistant Federal Reserve Agents Fletcher, Evans, and Anderson."

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

"According to the organization chart of the Federal Reserve Bank of Cleveland forwarded with Mr. Fleming's letter of June 10, 1936, it is proposed to appoint Mr. Howard Evans Chief Examiner for the Federal Reserve Bank of Cleveland, and to also appoint him Assistant Federal Reserve Agent to serve after the nonstatutory duties have been transferred from the Federal Reserve Agent to the bank.

"As you were advised in the Board's telegram of June 23, 1936, (Trans 2406) Assistant Federal Reserve Agents appointed after the transfer of the nonstatutory duties of the Agent to the bank should be careful and conscientious persons of unquestioned integrity, competent to handle all work in connection with the issuance and retirement of Federal Reserve notes. The primary duties of the Assistant Federal Reserve Agent should be those connected with the issuance and retirement of Federal Reserve notes and when not engaged in such work he will be expected to perform, with the authorization of the Federal Reserve Agent and the approval of the President, other work in the bank which is not inconsistent with his duties as Assistant Federal Reserve Agent.

"Inasmuch as the Federal Reserve Bank proposes to appoint Mr. Evans Chief Examiner, the Board believes that it would be inconsistent with the views above expressed to appoint him also to serve as Assistant Federal Reserve Agent and it is accordingly requested that you recommend to the Board the appointment of someone satisfactory to you as Assistant Federal Reserve Agent whose primary duties will be those connected with the issuance and retirement of Federal Reserve notes."

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Memorandum dated July 15, 1936, from Mr. Broderick submitting the report received from the Federal Reserve Bank of Richmond covering the survey made by the bank of its operations and organization pursuant to the Board's letter of March 25, 1936, X-9532, as well as a draft of a letter to President Leach, reading as follows. The memorandum and letter have been previously circulated among the members of the Board for their consideration:

"The Board has reviewed the report of the survey made of the operations and organization of the Federal Reserve Bank of Richmond forwarded with your letter of June 6, 1936.

"In the Board's letter of March 25, 1936, it was stated that the Board had in mind a procedure looking toward the placing of the chairmanship largely upon an honorary basis with the thought that the ministerial duties with respect to the issuance of Federal Reserve notes and the holding in custody of collateral therefor would actually be performed by Assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. In this connection there is attached a copy of a letter to Mr. Walsh, Federal Reserve Agent at Dallas, with respect to the duties to be performed by him as Chairman and Federal Reserve agent on an honorary basis. The Board would expect the principles and procedure set forth in the letter to Chairman Walsh to be followed at all Federal Reserve banks.

"The Board's letter of March 25, 1936, also stated that the procedure contemplated would result in the transfer of the bank examination work and the research work, heretofore handled by the Federal Reserve agents, to the banking departments with the understanding, however, that such functions would, as heretofore, be conducted under the general supervision of the Board of Governors.

"In order to acquaint you more fully with the conditions under which it is contemplated that the examination and research work will be transferred to the banks, these conditions are set forth below in general terms. With respect to the examination function, the plan contemplates that:

1. All appointments of examiners at the Federal Reserve banks will continue to be subject to the

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- "approval of the Board of Governors.
2. The examination department will continue as a separate unit.
 3. The examination department will be under the supervision of a Vice President to be designated by the bank after consultation with the Board.
 4. The budget for this function will be subject to advance approval of the Board of Governors.

"The Vice President in charge of examinations, who will be designated as an examiner for the Federal Reserve bank, will, except in the larger banks, be expected to act as Chief Examiner. The Board would also expect the Vice President in charge of examinations to be responsible directly to the President of the bank and not to another Vice President or other officer.

"While it is expected that the President will keep himself informed of the activities and policies of the examination department, it is contemplated that correspondence, other than that relating to policy matters, would be carried on by the Board and its staff directly with the Vice President in charge of examinations. This procedure would be similar to that generally followed with respect to other correspondence about routine operating matters.

"After the transfer is made the Board will expect that the present policy of decentralization of examination work under the ultimate responsibility of the Board will continue, that the examination work will be conducted by the Federal Reserve banks under the general policies adopted by the Board, and that general supervision of the examination work of the System as a whole will continue to be exercised by the Board's Division of Examinations.

"In the past the Federal Reserve agent's department has had custody of the reports of examinations made by the various agencies, which reports have been made available to certain officers of the bank and to certain designated employees in the Credit and Discount and other departments of the bank. When the bank examination department is transferred to the Federal Reserve bank instructions should be issued providing that the bank examination department will continue to have custody of reports of examinations, and proper safeguards should be established in order to preserve the confidential character of such information and to insure that the reports will be made available to officers or employees of other departments only when justified in the performance of their duties.

"The principles to govern the operations of the research and statistical organizations after their transfer from the

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agent's department to the bank are outlined in the following paragraphs which supersede those transmitted with the Board's letter of August 11, 1926, X-4646.

"Scope and purpose The purpose of the work of the research and statistical division of the Federal Reserve banks is to collect and digest information bearing on the problems with which the Federal Reserve System is confronted, either as a matter of current operation or as the basis of Federal Reserve policies.

"These divisions should provide a necessary service to the officials of the banks and to the Board of Governors of the Federal Reserve System and should also be useful to the general public. Owing to the joint usefulness of these services the Board expects its Division of Research and Statistics to keep in close touch with the activities of similar departments at the Reserve banks, and expects full cooperation in the System's work in this field.

"When a new project in the research and statistical field is in contemplation at a Reserve bank it should be worked out in cooperation with the Board's Director of Research and Statistics, except as to projects of small scope which involve no considerable expense. From time to time the Director of the Board's Division of Research and Statistics may find it necessary to request the cooperation of one or more Federal Reserve banks on research studies.

"Publications The Board wishes to continue the present practice under which all publications of the Federal Reserve banks dealing with matters of more than local interest are submitted to the Board of Governors and issued only with the approval of the Board.

"Budget and personnel The budget of the statistical and analytical function should continue to be subject to the advance approval of the Board and all appointments of persons to supervisory positions in the statistical and analytical function should be subject to the approval of the Board.

"The Board would expect the person in charge of the research and statistical functions to report directly to the President of the bank and not to a Vice President or another officer.

"It is further contemplated that the work heretofore handled by the Federal Reserve agents in connection with administration of the Securities Exchange Act of 1934 will also

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"be transferred to the banking departments with the understanding that this work, like the examination work and the research work, will, as heretofore, be conducted under the general supervision of the Board of Governors. The conditions of transfer contemplated by the plan do not include any specifications as to whether the reserve bank shall have a separate unit for doing this work, as this would appear at present to be necessary at only a few of the Federal Reserve banks, but it is expected that all appointments or assignments of persons to supervisory positions in handling this work at each Federal Reserve bank will be subject to the approval of the Board of Governors.

"With respect to the statutory duties of the Federal Reserve agent, the Board will appoint, upon the recommendation of the Federal Reserve Agent, one or more assistant Federal Reserve agents whose primary duties will be in connection with the issuance and retirement of Federal Reserve notes and the custody of collateral therefor. When an Assistant Federal Reserve agent is not engaged in work connected with the issuance and retirement of Federal Reserve notes it is assumed that, with the authorization of the Federal Reserve agent and the approval of the President, he will perform other work in the bank which is not inconsistent with his duties as Assistant Federal Reserve agent.

"It is not expected that the Assistant Federal Reserve agent will be charged with responsibility under section 30 of the Banking Act of 1933. The Vice President in charge of examinations should be charged with the responsibility of keeping the Federal Reserve agent advised of violations of law by directors and officers of State member banks and of unsound banking practices in order to enable the Federal Reserve agent to comply with the requirements of that section regarding the issuance of warnings to the directors and officers involved and the certification of facts in such cases to the Board of Governors.

"As soon as an Assistant Federal Reserve agent has been appointed and has executed the customary bond, the Board of Governors is prepared to authorize the transfer of the examination and research work to the bank and will also then accept the resignation to be submitted by Assistant Federal Reserve Agent Fry."

The proposed letter was approved
unanimously.

Memorandum dated July 14, 1936, from Mr. Broderick submitting

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the report received from the Federal Reserve Bank of Kansas City covering the survey made by the bank of its operations and organization pursuant to the Board's letter of March 25, 1936, X-9532, as well as a draft of a letter to President Hamilton reading as follows. The memorandum and letter have been previously circulated among the members of the Board for their consideration:

"The Board has reviewed the report of the survey made of the operations and organization of the Federal Reserve Bank of Kansas City forwarded with your letter of June 9, 1936.

"In the Board's letter of March 25, 1936, it was stated that the Board had in mind a procedure looking toward the placing of the chairmanship largely upon an honorary basis with the thought that the ministerial duties with respect to the issuance of Federal Reserve notes and the holding in custody of collateral therefor would actually be performed by Assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. In this connection, there is attached a copy of a letter to Mr. Walsh, Federal Reserve Agent at Dallas, with respect to the duties to be performed by him as Chairman and Federal Reserve agent on an honorary basis. The Board would expect the principles and procedure set forth in the letter to Chairman Walsh to be followed at all Federal Reserve banks.

"The Board's letter of March 25, 1936, also stated that the procedure contemplated would result in the transfer of the bank examination work and the research work, heretofore handled by the Federal Reserve agents, to the banking departments with the understanding, however, that such functions would, as heretofore, be conducted under the general supervision of the Board of Governors.

"In order to acquaint you more fully with the conditions under which it is contemplated that the examination and research work will be transferred to the banks, these conditions are set forth below in general terms. With respect to the examination function, the plan contemplates that:

1. All appointments of examiners at the Federal Reserve banks will continue to be subject to the approval of the Board of Governors.

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2. The examination department will continue as a separate unit.
3. The examination department will be under the supervision of a Vice President to be designated by the bank after consultation with the Board of Governors.
4. The budget for this function will be subject to advance approval of the Board of Governors.

"The Vice President in charge of examinations, who will be designated as an examiner for the Federal Reserve bank, will, except in the larger banks, be expected to act as Chief Examiner. The Board would also expect the Vice President in charge of examinations to be responsible directly to the President of the bank and not to another Vice President or other officer.

"While it is expected that the President will keep himself informed of the activities and policies of the examination department, it is contemplated that correspondence, other than that relating to policy matters, would be carried on by the Board and its staff directly with the Vice President in charge of examinations. This procedure would be similar to that generally followed with respect to other correspondence about routine operating matters.

"After the transfer is made the Board will expect that the present policy of decentralization of examination work under the ultimate responsibility of the Board will continue, that the examination work will be conducted by the Federal Reserve banks under the general policies adopted by the Board, and that general supervision of the examination work of the System as a whole will continue to be exercised by the Board's Division of Examinations.

"In the past the Federal Reserve agent's department has had custody of the reports of examinations made by the various agencies, which reports have been made available to certain officers of the bank and to certain designated employees in the Credit and Discount and other departments of the bank. When the bank examination department is transferred to the Federal reserve bank instructions should be issued providing that the bank examination department will continue to have custody of reports of examinations, and proper safeguards should be established in order to preserve the confidential character of such information and to insure that the reports will be made available to officers or employees of other departments only when justified in the performance of their duties.

"The principles to govern the operations of the research and statistical organizations after their transfer from the

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"agent's department to the bank are outlined in the following paragraphs which supersede those transmitted with the Board's letter of August 11, 1926, X-4646.

"Scope and purpose The purpose of the work of the research and statistical divisions of the Federal Reserve banks is to collect and digest information bearing on the problems with which the Federal Reserve System is confronted, either as a matter of current operation or as the basis of the Federal Reserve policies.

"These divisions should provide a necessary service to the officials of the banks and to the Board of Governors of the Federal Reserve System and should also be useful to the general public. Owing to the joint usefulness of these services the Board expects its Division of Research and Statistics to keep in close touch with the activities of similar departments at the Reserve banks, and expects full cooperation in the System's work in this field.

"When a new project in the research and statistical field is in contemplation at a Reserve bank it should be worked out in cooperation with the Board's Director of Research and Statistics, except as to projects of small scope which involve no considerable expense. From time to time the Director of the Board's Division of Research and Statistics may find it necessary to request the cooperation of one or more Federal Reserve banks on research studies.

"Publications The Board wishes to continue the present practice under which all publications of the Federal Reserve banks dealing with matters of more than local interest are submitted to the Board of Governors and issued only with the approval of the Board.

"Budget and personnel The budget of the statistical and analytical function should continue to be subject to the advance approval of the Board and all appointments of persons to supervisory positions in the statistical and analytical function should be subject to the approval of the Board.

"The Board would expect the person in charge of the research and statistical functions to report directly to the president of the bank and not to a vice president or other officer.

"It is further contemplated that the work heretofore handled by the Federal Reserve agents in connection with ad-

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"ministration of the Securities Exchange Act of 1934 will also be transferred to the banking departments with the understanding that this work, like the examination work and the research work, will, as heretofore, be conducted under the general supervision of the Board of Governors. The conditions of transfer contemplated by the plan do not include any specifications as to whether the reserve bank shall have a separate unit for doing this work, as this would appear at present to be necessary at only a few of the Federal Reserve banks, but it is expected that all appointments or assignments of persons to supervisory positions in handling this work at each Federal Reserve bank will be subject to the approval of the Board of Governors.

"With respect to the statutory duties of the Federal Reserve agent, the Board will appoint, upon the recommendation of the Federal Reserve agent, one or more assistant Federal Reserve agents whose primary duties will be in connection with the issuance and retirement of Federal Reserve notes and the custody of collateral therefor. When an Assistant Federal Reserve agent is not engaged in work connected with the issuance and retirement of Federal Reserve notes it is assumed that, with the authorization of the Federal Reserve agent and the approval of the President, he will perform other work in the bank which is not inconsistent with his duties as Assistant Federal Reserve agent.

"It is not expected that the Assistant Federal Reserve agent will be charged with responsibility under section 30 of the Banking Act of 1933. The Vice President in charge of examinations should be charged with the responsibility of keeping the Federal Reserve Agent advised of violations of law by directors and officers of State member banks and of unsound banking practices in order to enable the Federal Reserve Agent to comply with the requirements of that section regarding the issuance of warnings to the directors and officers involved and the certification of facts in such cases to the Board of Governors.

"As soon as an Assistant Federal Reserve agent has been appointed to perform the statutory duties of the Federal Reserve agent and has executed the customary bond, the Board of Governors is prepared to authorize the transfer of the examination and research work to the bank and will also then accept the resignation to be submitted by Assistant Federal Reserve Agent McAdams."

The proposed letter was approved unanimously.

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Memorandum dated July 14, 1936, from Mr. Broderick submitting the report received from the Federal Reserve Bank of Dallas covering the survey made by the bank of its operations and organization pursuant to the Board's letter of March 25, 1936, X-9532, as well as a draft of a letter to President McKinney reading as follows. The memorandum and letter have been previously circulated among the members of the Board for their consideration:

"The Board has reviewed the report of the survey made of the operations and organization of the Federal Reserve Bank of Dallas forwarded by Mr. Walsh under date of June 27, 1936.

"In the Board's letter of March 25, 1936, it was stated that the Board had in mind a procedure looking toward the placing of the chairmanship largely upon an honorary basis with the thought that the ministerial duties with respect to the issuance of Federal Reserve notes and the holding in custody of collateral therefor would actually be performed by Assistant Federal Reserve agents who would be experienced in such work and who would receive salaries commensurate with the duties and responsibilities to be assumed. In this connection there is attached a copy of a letter to Mr. Walsh with respect to the duties to be performed by him as Chairman and Federal Reserve agent on an honorary basis. The Board's letter of March 25, 1936, also stated that the procedure contemplated would result in the transfer of the bank examination work and the research work, heretofore handled by the Federal Reserve agents, to the banking departments with the understanding, however, that such functions would, as heretofore, be conducted under the general supervision of the Board of Governors.

"In order to acquaint you more fully with the conditions under which it is contemplated that the examination and research work will be transferred to the banks, these conditions are set forth below in general terms. With respect to the examination function, the plan contemplates that:

1. All appointments of examiners at the Federal Reserve banks will continue to be subject to the approval of the Board of Governors.

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2. The examination department will continue as a separate unit.
3. The examination department will be under the supervision of an officer to be designated by the bank after consultation with the Board of Governors.
4. The budget for this function will be subject to advance approval of the Board of Governors.

"It has been noted from the report of the survey that Mr. Evans will be appointed an Assistant Vice President and will be placed in direct charge of the Bank Examination Department, which department will in turn be under the general supervision of the First Vice President. The Board would expect the officer in charge of examinations to report directly to the President and not to another Vice President or other officer. The officer in charge of examinations, who will be designated as an examiner for the Federal Reserve bank, should, it is felt, also act as chief examiner.

"While it is expected that the President will keep himself informed of the activities and policies of the examination department, it is contemplated that correspondence, other than that relating to policy matters, would be carried on by the Board and its staff directly with the officer in charge of examinations. This procedure would be similar to that generally followed with respect to other correspondence about routine operating matters.

"After the transfer is made the Board will expect that the present policy of decentralization of examination work under the ultimate responsibility of the Board will continue, that the examination work will be conducted by the Federal Reserve banks under the general policies adopted by the Board, and that general supervision of the examination work of the System as a whole will continue to be exercised by the Board's Division of Examinations.

"In the past the Federal Reserve Agent's department has had custody of the reports of examinations made by the various agencies, which reports have been made available to certain officers of the bank and to certain designated employees in the Credit and Discount and other departments of the bank. When the bank examination department is transferred to the Federal Reserve bank instructions should be issued providing that the bank examination department will continue to have custody of reports of examinations, and proper safeguards should be established in order to preserve the confidential character of such information and to insure that the reports will be made available to officers or employees of other

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"departments only when justified in the performance of their duties.

"The principles to govern the operations of the research and statistical organizations after their transfer from the agent's department to the bank are outlined in the following paragraphs which supersede those transmitted with the Board's letter of August 11, 1926, X-4646.

"Scope and purpose The purpose of the work of the research and statistical divisions of the Federal Reserve banks is to collect and digest information bearing on the problems with which the Federal Reserve System is confronted, either as a matter of current operation or as the basis of the Federal Reserve policies.

"These divisions should provide a necessary service to the officials of the banks and to the Board of Governors of the Federal Reserve System and should also be useful to the general public. Owing to the joint usefulness of these services the Board expects its Division of Research and Statistics to keep in close touch with the activities of similar departments at the Reserve banks, and expects full cooperation in the System's work in this field.

"When a new project in the research and statistical field is in contemplation at a Reserve bank it should be worked out in cooperation with the Board's Director of Research and Statistics, except as to projects of small scope which involve no considerable expense. From time to time the Director of the Board's Division of Research and Statistics may find it necessary to request the cooperation of one or more Federal Reserve banks on research studies.

"Publications The Board wishes to continue the present practice under which all publications of the Federal Reserve banks dealing with matters of more than local interest are submitted to the Board of Governors and issued only with the approval of the Board.

"Budget and personnel The budget of the statistical and analytical function should continue to be subject to the advance approval of the Board and all appointments of persons to supervisory positions in the statistical and analytical function should be subject to the approval of the Board.

"The Board would expect the person in charge of the research and statistical functions to report directly to the President and not to a Vice President or other officer.

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"It is further contemplated that the work heretofore handled by the Federal Reserve agents in connection with administration of the Securities Exchange Act of 1934 will also be transferred to the banking departments with the understanding that this work, like the examination work and the research work, will, as heretofore, be conducted under the general supervision of the Board of Governors. The conditions of transfer contemplated by the plan do not include any specifications as to whether the reserve bank shall have a separate unit for doing this work, as this would appear at present to be necessary at only a few of the Federal Reserve banks, but it is expected that all appointments or assignments of persons to supervisory positions in handling this work at each Federal Reserve bank will be subject to the approval of the Board of Governors.

"As indicated in the Board's telegram of June 23, 1936, to Mr. Walsh, the Board contemplates that the principal duties of the Assistant Federal Reserve Agent will be in connection with the issuance and retirement of Federal Reserve notes. While the Board would expect a person appointed to this position, when not engaged in work connected with the issuance and retirement of Federal Reserve notes, to perform, under the authorization of the Federal Reserve Agent and with the approval of the President, other work in the bank not inconsistent with his duties as Assistant Federal Reserve Agent, the Board does not feel that as a general policy an Assistant Federal Reserve Agent should be assigned work in the bank of relatively more importance than the issuance and retirement of Federal Reserve notes and be carried upon the Agent's payroll at a salary in excess of that reasonably commensurate with his duties in the latter capacity. In view of the circumstances set forth in your letter of June 27, 1936, however, the Board, in accordance with the recommendation of the Federal Reserve Agent and the suggestion of a committee of your directors, approves a salary of \$5,000 for Mr. Hall as Assistant Federal Reserve Agent, effective as of the date the non-statutory functions of the Agent are transferred to the bank. The Board approves also the appointment of Mr. E. A. Thaxton of the Loan Department as Acting Assistant Federal Reserve Agent effective as soon as he has executed the customary bond. It is understood that Mr. Thaxton will continue to perform the duties now assigned to him and that he will act in his capacity of Acting Assistant Federal Reserve Agent only in the absence of Mr. Hall.

"It is not expected that the Assistant Federal Reserve Agent will be charged with responsibility under section 30 of the Banking Act of 1933. The officer in charge of examinations

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"should be charged with the responsibility of keeping the Federal Reserve Agent advised of violations of law by directors and officers of State member banks and of unsound banking practices in order to enable the Federal Reserve Agent to comply with the requirements of that section regarding the issuance of warnings to the directors and officers involved and the certification of facts in such cases to the Board of Governors.

"Please advise the Board of the effective date of the transfer of the examination and research work to the bank. When such advice has been received the Board will accept the resignation to be submitted by Assistant Federal Reserve Agent Evans."

The proposed letter was approved unanimously, together with a letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Referring to your letter of June 27, 1936, the Board, in accordance with your recommendation and as suggested by a committee of your directors, approves a salary of \$5,000 for Mr. C. C. Hall as Assistant Federal Reserve Agent, effective as of the date the nonstatutory duties of the Federal Reserve Agent are transferred to the bank.

"In accordance with your letter of June 27, 1936, the Board approves also the appointment of Mr. E. A. Thaxton of the Loan Department as Acting Assistant Federal Reserve Agent, effective as soon as he has executed the customary bond. It is understood that Mr. Thaxton will continue to perform the duties now assigned to him and that he will act in his capacity of Acting Assistant Federal Reserve Agent only in the absence of Mr. Hall."

Letter to Mr. Paul Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"The members of the Board have seen your letter of July 8, 1936, in which you tender your resignation as a Class C Director and Deputy Chairman of the Federal Reserve Bank of St. Louis, to be effective at the pleasure of the Board. We appreciate very much the spirit in which your letter was written and I have been authorized to advise you that the Board wishes to have you continue your service to the St. Louis bank for the remainder of your present term.

"The policy announced in the Board's letter of January 9, 1935, to which you refer, was not intended to apply in any

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"way, during the then existing terms, to directors holding office at that time, but to future appointments by the Board of Governors, and the policy was announced in order that the Federal reserve banks and the directors of the banks and branches might have ample time within which to become familiar with the policy.

"The members of the Board appreciate very sincerely the contribution which you have made by your service to the Federal Reserve Bank of St. Louis and to the Federal Reserve System and hope that it will be possible for you to continue until the expiration of your present term."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of July 7, in reply to our letter of June 29, in which you state that the proposed increases in salaries of eighty-eight employees, as referred to in your letter of May 5, 1936, are not all in accord with the present personnel classification plan at your bank but that they are in accord with the new personnel classification plan which has been submitted for the Board's approval.

"Since it will not be practicable for the new personnel classification plan of your bank to be acted upon by the Board of Governors before August 1, it is suggested that any proposed salary increases which involve the payment of salaries in excess of the maximums provided for in the existing personnel classification plan be submitted to the Board for its consideration."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of July 8 requesting authority to transfer to 'Reserve for other losses' the profit of approximately \$497,000 realized on the sale to the System account on June 30 of United States Government securities held by your bank.

"It has always been the practice of the Board to include any profits realized by the Federal Reserve banks on the sale of United States Government securities as additions to current

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"net earnings in the statement of earnings and expenses of Federal Reserve banks published in its annual report to Congress, and then to treat as a deduction from current net earnings any amounts set aside as reserves. It is believed desirable to continue this practice. It was, however, as you may recall, the general understanding, at the time the transfer at market values of securities from the holdings of individual Federal Reserve banks to the System account was under consideration, that any profits resulting from such transfers should be held as a reserve rather than be transferred to surplus account. Accordingly, the Board will give favorable consideration to your recommendation that an amount equal to such profit be transferred to 'Reserve for other losses' at the end of this year."

Approved unanimously.

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

"This refers to your letter of June 26, 1936, and its inclosures, relating to an inquiry from Mr. M. E. Reeve, Vice-President and Trust Officer, City National Bank of Philadelphia, Philadelphia, Pennsylvania, concerning whether, under the provisions of subsection (b) of section 9 of the Board's Regulation F, securities must be delivered to the trust department of the bank to secure certain funds deposited in the banking department of the bank.

"The pertinent provisions of the regulation read as follows:

'(b) Use in conduct of business of trustee bank. -- Funds received or held by a national bank as fiduciary waiting investment or distribution shall not be used by the bank in the conduct of its business, unless the bank, under authorization by its board of directors, first delivers to the trust department, as collateral security-- * * *'

As you know, the above provisions of the regulation are designed to carry out a requirement contained in section 11(k) of the Federal Reserve Act.

"The funds in question constitute a 'redemption fund' created by moneys received by the bank as trustee under a corporate trust indenture which provides in part as follows:

'All moneys received by the Trustee against the

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"surrender to the Company of warehouse receipts or customers' notes, as hereinbefore provided in Section 1 of this Article V, and all moneys received by the Trustee from the makers in payment of the principal of customers' notes, as provided in Section 2 of this Article V, shall be held by the Trustee in special accounts, hereinafter called "The Redemption Fund", each standing in the name of "City National Bank of Philadelphia, Trustee for Kinsey Distilling Company - Redemption Fund", maintained on deposit with the Trustee bank, and such other bank or banks as the Trustee shall select."

"While the Board does not have all of the terms of the trust indenture before it, it appears that the funds are undoubtedly 'funds received or held by a national bank as fiduciary awaiting investment or distribution' and that, accordingly, if any of such funds are deposited in the trustee's own banking department, securities must be delivered to the trust department in accordance with the provisions of subsection (b) of section 9 of Regulation F. Mr. Reeve calls attention to the fact that the trust indenture provides that such funds may be deposited in the trustee's own banking department but that fact does not in any wise affect the applicability of the above mentioned requirement."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of July 7 in reply to the Board's letter of July 2 in regard to the suggestion of the recent conference of Presidents that your bank might wish to recall its Circular #424 until such time as the Presidents had had an opportunity to consider the forthcoming report of the committee on free services.

"In view of the circumstances as set forth in your letter, and particularly of the saving in expense under your present procedure and of the fact that no complaints have been received by your bank, the Board will interpose no objection to the continuance of the procedure outlined in your Circular #424 until the matter has received further consideration by the conference of Presidents and by the committee on free services."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

J. A. Brodick
Member.