

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 20, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman  
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:

Memorandum dated July 18, 1936, from Mr. Paulger recommending the temporary appointment, for a period of one month, of Miss Henrietta Slavens, as a stenographer in the Division of Examinations at a salary of \$100.00 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated July 11, 1936, from Mr. Broderick submitting information received from the Federal Reserve Bank of Chicago pursuant to the Board's letter of March 25, 1936, X-9532, regarding proposed changes in personnel and operation of the bank, as well as a draft of a letter to President Schaller 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 information submitted by you in connection with the proposed changes in operation and organization of the Federal Reserve Bank of Chicago.

"In the Board's letter of March 25, 1936, it was stated

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"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.

"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

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"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.

"The Board notes with approval the proposed plan to elect Assistant Federal Reserve Agent Young a Vice President and to place the bank examination department under his supervision. It is understood that your directors propose that Mr. Young, as Vice President, will continue to receive a salary at the rate of \$15,000 per annum, and the Board approves a salary of Mr. Young as Vice President at that rate, if and when fixed by your directors.

"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 examination, 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.

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"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 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

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"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 Assistant Federal Reserve Agent Young, 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. The Board feels that the Assistant Federal Reserve agents appointed after transfer of the agent's nonstatutory duties to the bank shall be careful and conscientious persons of unquestioned integrity, competent to handle all work in connection with the issuance and retirement of Federal Reserve notes.

"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 resignations to be submitted by the present Assistant Federal Reserve Agents Young, Prugh and Martin."

The proposed letter was approved unanimously, together with a letter to President Schaller, reading as follows:

"Under dates of June 26, 1936, and July 3, 1936, the Board advised you of the approval of increases, effective as of January 1, 1936, in the annual salaries to be paid certain of the officers of the Federal Reserve Bank of Chicago during the year 1936. The Board also approves a salary,

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"effective as of September 1, 1936, at the rate of \$12,000 per annum for Vice President Dillard.

"Reference is made to the conversation between you and Mr. Broderick when he was in Chicago recently concerning the action taken by the Board, as set forth in its letter of March 9, 1936, in approving the salary of Mr. McKay as Vice President of the Federal Reserve Bank of Chicago only until September 1, 1936, and in authorizing the bank to pay to the retirement system upon the termination of Mr. McKay's services such amount as may be necessary to provide for him an annual retirement allowance equal to the allowance he would receive if he were sixty-five years of age on the date of such termination.

"The Board has given further consideration to this matter, and in view of the existing circumstances, has requested me to advise you that, subject to the necessary action being taken by your board of directors, the Board approves the payment of salary at the rate of \$12,000.00 per annum to Mr. McKay as Vice President of the Federal Reserve Bank of Chicago for the period from September 1, 1936, to February 28, 1937, inclusive, with the understanding that at the time the salaries fixed for officers of your bank for the year 1937 are submitted to the Board for approval, the Board will give consideration to what further action, if any, should be taken with respect to Mr. McKay.

"The Board's action was taken with the further understanding that should Mr. McKay's services be terminated on that date your bank is authorized, should the board of directors approve such action, to pay to the retirement system such amount as may be necessary, together with Mr. McKay's own contributions, to provide for him an annual retirement allowance in an amount equal to the allowance to which he would be entitled if he were sixty-five years of age on the date of the termination of his service."

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

"Since writing you under date of June 29, 1936, with respect to the survey of the Federal Reserve Bank of Minneapolis, the Board has reviewed the procedure to be followed with reference to work to be performed at the Federal Reserve banks under the Securities Exchange Act of 1934, and has asked me to advise you that it is contemplated that the work heretofore handled by the Federal Reserve Agents in connection with administration of the Securities Exchange Act

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"of 1934 will 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."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"Reference is made to the Board's letter of May 2, 1932, and to its telegrams of March 2, 1933 and April 29, 1933, with respect to the amounts of Government securities that may be pledged by the Federal Reserve banks with the Federal Reserve agents as collateral security for Federal Reserve notes.

"For some time the amount of Government securities pledged by the Federal Reserve banks with the Federal Reserve agents as collateral security for Federal Reserve notes has been comparatively small and it is believed that it is no longer necessary to limit by a fixed formula the amount of Government securities that may be so pledged by a given Federal Reserve bank.

"Accordingly, beginning August 1, 1936, you are authorized to pledge with the Federal Reserve agent, and the Federal Reserve agent is authorized to receive, United States Government obligations as collateral security for Federal Reserve notes in such amounts as may be reasonably necessary to avoid frequent interchanges of United States Government obligations and gold certificates as collateral security for Federal Reserve notes."

Approved unanimously.

Letter to Honorable J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

"Reference is made to Deputy Comptroller Gough's letter

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"of July 11, 1936, advising of your approval of the application of The Upper Avenue Bank, Chicago, Illinois, a member bank, to convert into the Upper Avenue National Bank of Chicago, and requesting advice as to whether, subsequent to the proposed conversion, Mr. Roy C. Osgood may serve at the same time as director and officer of the converted institution and as officer of The First National Bank of Chicago, Chicago, Illinois, and whether Mr. Henry C. Murphy may serve at the same time as director and officer of the converted institution and First National Bank of Woodstock, Woodstock, Illinois.

"Prior to the amendment of section 8 of the Clayton Act by the Banking Act of 1935, the Board ruled that, since a State bank does not lose its corporate identity in converting into a national bank, a person holding a permit to serve a State bank and other banks coming within the provisions of the Clayton Act need not obtain a new permit to serve the same banks after the conversion of the State bank into a national bank.

"It appears that similar considerations are applicable under the following provision which is now contained in section 8 of the Clayton Act:

'Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank or trust company, or any branch thereof, on the date of enactment of the Banking Act of 1935, from continuing such service.'

"The files of the Board show that on January 19, 1935, Mr. Osgood was granted permission under the provisions of section 8 of the Clayton Act to serve as officer of The First National Bank of Chicago and as director and officer of The Upper Avenue Bank, both of Chicago, Illinois; and that on September 18, 1934, Mr. Murphy was granted permission to serve as director and officer of The Upper Avenue Bank, Chicago, Illinois, and First National Bank of Woodstock, Woodstock, Illinois.

"Therefore, in view of the provision in section 8 of the Clayton Act quoted above, it appears that, subsequent to the proposed conversion of The Upper Avenue Bank into Upper Avenue National Bank of Chicago, Mr. Osgood may serve as a director and officer of Upper Avenue National Bank of Chicago and as



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"officer of The First National Bank of Chicago until February 1, 1939, if on August 23, 1935, he was serving the banks named in his permit in the capacities referred to therein.

"The same provision would likewise permit Mr. Murphy's relationships to continue until February 1, 1939. However, another provision in section 8 excepts his relationships altogether from the prohibitions of the section. That provision, which is contained in paragraph (5) of section 8, excepts relationships involving 'A bank, \* \* \* not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.' Therefore, in view of the fact that Woodstock and Chicago are 65 miles apart, Mr. Murphy may continue to serve Upper Avenue National Bank of Chicago and First National Bank of Woodstock, even after February 1, 1939."

Approved unanimously.

Letter to Honorable J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Lyons' letter dated July 1, 1936, and inclosures, requesting the views of the Board upon the question whether the First National Bank, Nicholson, Pennsylvania, may continue to pay interest at the rate of 4 per cent per annum on a savings account styled 'Nicholson Cemetery Association -- Permanent Deposit -- Rate 4%.'

"It is understood from the inclosed letter of the national bank examiner that this account was opened on February 1, 1929, and that the pass book contains the usual rules and regulations giving the bank the right to require 30 days' written notice of withdrawal and does not contain any provision indicating that withdrawals may not be made, except the words 'Permanent Deposit' in the title of the account. The examiner states, however, that the cashier claims that it is verbally understood between the bank and the Cemetery Association that the funds in the account are of a permanent nature and that withdrawals of amounts other than interest credits are not to be made.

"Section (1) of the supplement to Regulation Q, effective January 1, 1936, provides that no member bank shall pay interest accruing after January 31, 1935, at a rate in excess of  $2\frac{1}{2}$  per cent per annum on any savings deposit, 'except that a member bank may pay interest on any such deposit in accord-

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"In accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 18, 1934, (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability."

"On the basis of the facts stated above, it is the view of the Board that the member bank has the right, upon giving reasonable notice to the depositor, to terminate or modify the savings deposit contract in order to cause the rate of interest paid thereon to comply with the regulation. Accordingly, the Board is of the opinion that the bank is required by the provisions of Regulation Q to proceed at once to take such steps as may be necessary, through notice to the depositor or otherwise, to terminate or modify the contract in question in order to bring it into conformity with the provisions of the regulation.

"The Board has taken the position that deposits of a corporation or other organization engaged in the sale and maintenance of cemetery lots may be classified as savings deposits provided the organization is not operated for profit and the deposit meets the other requirements of section 1(e) of Regulation Q. Accordingly, it is the view of the Board that if the Nicholson Cemetery Association is engaged in the sale and maintenance of cemetery lots and is not operated for profit, deposits of such association may be classified by a member bank as savings deposits and interest may be paid thereon at a rate not exceeding  $2\frac{1}{2}$  per cent per annum."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Moriel  
Secretary.

Approved:

W. S. Lewis  
Chairman.