

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 23, 1936, at 11:00 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:

Telegrams to Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated July 22, 1936, from Mr. Paulger, recommending the temporary appointment, for a period of one month, of Miss Catherine Coulon as a stenographer in the Division of Examinations with salary at the rate of \$100 per month, effective as of the date upon which she enters upon the performance of her duties.

Approved unanimously.

Memorandum dated June 23, 1936, from Mr. Smead submitting, pursuant to the action taken at the meeting of the Board on April 28, 1936, information received from the Federal reserve banks with respect to the

7/23/36

-2-

leave policies of the banks, and stating that since the leave schedules of the various banks did not appear to be excessive in any case and since they conformed largely to the practices followed by other establishments in their respective communities, it was not thought that any attempt should be made to induce them to adopt a plan similar to that adopted by Congress for Federal employees or that any other attempt should be made to have all Federal reserve banks adopt uniform leave schedules. The memorandum recommended that each bank be asked to keep the Board advised currently of any changes with respect to its practice in regard to granting annual and sick leave to officers and employees. The memorandum also referred to the practice of the Federal Reserve Bank of Minneapolis of regarding as sick leave all leaves of absence granted to officers or employees for any reason whatever, exclusive of vacations, except when specifically exempted, and suggested that the Board's examiners be asked to review the practice of the Minneapolis bank in this respect at the time of the next examination.

Approved unanimously.

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

"Condition of membership numbered 8 prescribed for 'The Brooks Bank and Trust Company', Torrington, Connecticut, provides, in part, that:

' * * * before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.'

"The report of examination of The Brooks Bank and Trust Company, made as of April 6, 1936, shows that, since the pre-

7/23/36

-3-

"vious examination, the bank has expended and capitalized approximately \$13,000 for the erection of a store building adjacent to the building in which it is now quartered, with the result that the present carrying value of its investment in banking house is in excess of the carrying value shown in the previous report of examination. It appears that the permission of the State banking authorities was obtained for this expenditure but that, through oversight, the bank did not refer the matter to the Board for consideration in the light of the provisions of the condition of membership referred to above. The current report of examination of the bank reflects a generally satisfactory condition and a capable management, and the amount of the expenditure is relatively small. In the circumstances, and in order to obviate the possibility of any question being raised in the future regarding the bank's compliance with this condition of membership, the Board interposes no objection to the expenditure under discussion."

Approved unanimously.

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

"Reference is made to Mr. Clark's letter of July 14, 1936, relative to the acquisition of certain assets and assumption of the deposit liabilities of the Bank of Pleasant Shade, Pleasant Shade, Tennessee, by the 'Citizens Bank & Trust Company', Carthage, Tennessee, which was effected June 24, 1936.

"It appears from the information submitted that the transaction has not resulted in any material change in the general character of the business of or broadening in the scope of powers exercised by the Citizens Bank & Trust Company within the meaning of the general condition under which it was admitted to membership in the Federal Reserve System. The Board, therefore, in accordance with the recommendation of your office, will interpose no objection to the transaction, provided that it was approved by the appropriate State authorities and that your counsel is satisfied as to the legal aspects involved.

"It is noted that the capital structure of the member bank, including appreciation in securities, as shown in the last report of examination as of March 2, 1936, would be equal to approximately 7.6% of the combined deposit liabilities after the assumption of the deposit liabilities of the Bank of Pleasant Shade. The Board feels strongly that the bank should

7/23/36

-4-

"have a more satisfactory capital structure in relation to its deposits and is pleased to note that, if the present ratio is maintained, you will use your best efforts to have the management increase the capital."

Approved unanimously.

Letter to Mr. Haynes McFadden, Secretary of the Georgia Bankers Association, reading as follows:

"Mr. Ransom has brought to the attention of the Board your letter of July 17 and the copy of your letter of July 15 to Assistant Federal Reserve Agent Clark at the Federal Reserve Bank of Atlanta in regard to the desire of your Association for certain information in the records of the Federal Reserve Bank of Atlanta in connection with a study which your Association is making. The Board is glad to cooperate with your Association in this matter and, accordingly, is authorizing the Federal Reserve Bank of Atlanta to make the desired information available under the conditions set forth in your letter of July 15 to Mr. Clark, with the understanding that in any compilation of data the figures for not less than three banks will be combined for any one group or class.

"In this connection, as it appears that the information you desire may include resort to data relating to national banks in Georgia, it is suggested that you take up with the Chief National Bank Examiner at Atlanta the matter of obtaining the consent of the Comptroller of the Currency to the utilization of such information."

Approved unanimously.

Letter to Honorable R. Walton Moore, Assistant Secretary of State, prepared for the signature of Chairman Eccles, and reading as follows:

"I have your letter of July 13, 1936, inclosing a memorandum concerning the services of Mr. Orville H. Bullitt as a director of the Central-Penn National Bank of Philadelphia, under section 32 of the Banking Act of 1933, as amended by the Banking Act of 1935.

"While Mr. Bullitt's case had already received the careful consideration of the Board and Mr. Bullitt had been advised at some length concerning the situation, I have had the case reviewed and analyzed in the light of the memorandum and the matter has again been considered by the Board.

7/23/36

-5-

"In this connection, I feel sure that some discussion of the legislative history of section 32 will prove helpful in reaching a better understanding of the Board's position. At the outset, I might say that the Board does not subscribe to the statement that bank boards must be made up of business men or lawyers who have had no banking training, or that trained bankers are ineligible for service upon a bank board, but only that relationships within the scope of the section have been considered by Congress to be unsound and are to be prohibited. The situation is not unlike that with respect to the law governing a trustee dealing with himself. Doubtless there are many trustees whose ability and integrity are such that beneficiaries would suffer no damage from such trustees' acting in a dual capacity, but the law has long recognized this to be a dangerous practice and consequently prohibits it. Similarly, the legislative history including the hearings and debates of Congress clearly indicate that the prohibitions of section 32 of the Banking Act of 1933 were directed at relationships which Congress deemed to be unsound and not in the public interest. As in the case of 'self-dealing' upon the part of a trustee, it is no doubt true that in many instances the prohibited relationship would result in no harm, but the practice itself has been stamped as being dangerous and as being one that should be prohibited.

"As originally enacted, section 32 of the Banking Act of 1933 authorized the Board to issue a permit in any case in which the Board found it would not be incompatible with the public interest. However, as amended by the Banking Act of 1935, it authorizes the Board to make exceptions only by general regulations. The effect of the amendment in this respect is reflected by the following quotation from the report of the Committee on Banking and Currency in the House:

' * * * . Whereas the existing law authorizes the Federal Reserve Board to make exceptions by granting permits in individual cases, the revised section would authorize the Board to make exceptions only by general regulations dealing with limited classes of cases when, in the judgment of the Board, such relationships would not unduly influence the investment policies of such member banks or the advice they give their customers regarding investments.'

A statement of like effect appears in the report of the Senate Committee on Banking and Currency.

"Obviously, the amended section limits, rather than extends, the right of the Board to grant permits, and certainly

7/23/36

-6-

"the Board should not permit relationships by regulations in conflict with the general scope of the section and the purpose and intent of Congress in enacting it.

"The memorandum which you inclosed suggests that the purposes of Congress might be achieved by the Board promulgating a general regulation permitting partners in a firm such as Mr. Bullitt's to serve as a director of a bank, providing that the firm did no business whatsoever with the bank. From the foregoing quotation, it is quite apparent that Congress not only considered that the relationship was unsound from the standpoint of the firm dealing with the bank but as well from other reasons including the giving of advice to the bank's correspondents and other customers.

"Consequently, the Board has concluded that irrespective of the results in individual cases, it was the intent of Congress that relationships such as in the instant case should be prohibited and the Board does not feel that it should, as a matter of policy, or that it can as a matter of law, fundamentally alter the scope of section 32 by regulation or deviate from the expressed intention of Congress.

"I regret to advise therefore that, under the circumstances, the Board feels that it must adhere to its original position as previously expressed to Mr. Bullitt."

Approved unanimously.

Memorandum dated July 21, 1936, from Mr. Vest, Assistant General Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin, statements in the form attached to the memorandum with respect to the Board's recent rulings on the following subjects:

Advances under Section 10(b) of the Federal Reserve Act to Member Banks Which Have Not Exhausted Their Eligible Paper.

Classification of Deposits of Funds of Cemetery Organizations and Funds of Municipalities Held for Maintenance of Cemetery Lots, as Savings Deposits.

Withdrawal from Savings Deposit Upon Telephone or Other Oral Order by Depositor.

Loans to Partnerships under Section 22(g) of the Federal Reserve Act.

7/23/36

The memorandum also recommended the publication in the next issue of the Bulletin of the text of the rules recently issued by the Securities and Exchange Commission under section 17(c) of the Public Utility Holding Company Act of 1935, together with the introductory statement on the subject attached to the memorandum.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Howie
Secretary.

Approved:

W. A. ...
Chairman.