

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 18, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The Secretary reported that in accordance with the action taken at the meeting of the Board on August 4, 1936, an excerpt from the minutes of that meeting with respect to the proposed enlargement of the research and statistical work of the Federal Reserve System was submitted to Messrs. Broderick and McKee and their attention called to the understanding that they were to be afforded an opportunity to record their position with respect to that matter, and that Mr. Broderick had advised that he agreed with the action taken by the Board and Mr. McKee had stated that he entertained no objections thereto.

Consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 17, 1936, were approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in

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its existing schedule.

Approved unanimously.

Memorandum dated August 15, 1936, from Mr. Paulger, Chief of the Division of Examinations, recommending that the temporary appointment of Miss Catherine Coulon as a stenographer in the Division be extended for a period of one month from August 23, 1936, with salary at the present rate of \$100 per month.

Approved unanimously.

Memorandum dated August 15, 1936, from Mr. Paulger, Chief of the Division of Examinations, recommending that the temporary appointment of Miss Henrietta Slavens as a stenographer in the Division be extended for a period of one month from August 20, 1936, with salary at the present rate of \$100 per month.

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Referring to your letter of August 6, 1936, the Board approves, effective as of August 1, 1936, the salaries of Assistant Vice President William G. McCreedy at \$9,000 per annum and of Assistant Cashier Glenn K. Morris at \$6,500 per annum, as fixed by the Board of Directors of your bank at its meeting on August 5, 1936."

Approved unanimously.

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

"Reference is made to the last paragraph of the Board's

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"letter to you of June 26, 1936, relating to the report of examination of the trust department of 'Union Trust Company of Springfield, Massachusetts', as of February 8, 1936, in which it was stated that the matter of deposits of trust cash in uninsured banks would be taken up at a later date.

"In connection with that matter, the Board wrote to the Federal Deposit Insurance Corporation, requesting a ruling concerning the question whether trust funds deposited by an insured bank in an uninsured bank are insured against loss resulting from the failure of the uninsured bank. In replying to the Board's letter, the General Counsel to the Federal Deposit Insurance Corporation, after referring to paragraph (9) of subsection (h) and paragraphs (12) and (13) of subsection (c) of section 12B of the Federal Reserve Act, stated:

'From the provisions to which specific reference has been made, as well as from the Section as a whole, we think it to be entirely clear that a deposit of trust funds in an uninsured bank is not insured to a fiduciary bank or trust company against loss occasioned by the failure of the uninsured bank. Such funds, however, are regarded as insured deposits in an insured bank and are protected in the measure stated when they are in any department of the insured fiduciary bank and they are insured in the same measure when deposited by the fiduciary bank in another insured bank. In a word, trust funds in an insured bank are deposits and insured deposits and they do not lose this status by being deposited in an uninsured bank, although they are not insured to the fiduciary bank against the contingency of failure of the uninsured bank.'

"In the circumstances, the Board feels that, before making deposits of trust funds in uninsured banks, member banks should give careful consideration to the matter in the light of their responsibility for exercising due care in handling trust funds, and that, in connection with the examination of member banks which deposit trust funds in uninsured banks, your examiners should call attention to the possibility that criticism and, perhaps, liability may result in the event of the loss of trust funds due to the failure of an uninsured bank."

Approved unanimously.

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Letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to the previous correspondence and telephone conversations with respect to the proposed Conference of Auditors of the Federal reserve banks to be held in accordance with the recommendation of the Conference of Presidents.

"As indicated in Mr. Fleming's letter to you dated August 4, 1936, Governor Broderick, prior to the initiation of the correspondence regarding the conference, had been giving consideration to the matter of surveys of the auditing departments of the twelve reserve banks. In considering suggestions which might be offered as to the program for the Conference of Auditors, it was thought that a survey made in the near future on a uniform basis by each Federal reserve bank of the auditing functions and procedure in effect at the bank and the interchange with the other reserve banks of the reports of such surveys would be helpful in developing a number of topics for consideration at the conference, answer some of the questions which would otherwise be raised, and generally promote the effectiveness of the conference. In addition, it seemed that, without reference to the proposed conference, such a survey and exchange of reports might develop matters relating to auditing procedure which the auditors might desire to study with respect to the applicability to their respective banks.

"In order to obtain the benefit of the viewpoint of representatives of Federal reserve banks and their assistance in preparing the outline for such a survey, Mr. Grayson, Auditor of the Federal Reserve Bank of Cleveland, and Mr. Walden, Vice President of the Federal Reserve Bank of Richmond, formerly Auditor and later Comptroller of that institution, were requested to come to Washington to work out, in cooperation with representatives of the Board's staff, a suggested outline for the survey.

"Copies of the outline so prepared are submitted for your consideration with the request, in accordance with our telephone conversation, that, as Chairman of the Conference of Presidents, you transmit copies of the outline to the presidents of the other Federal reserve banks, requesting each reserve bank to forward to each other reserve bank and to the Board of Governors two copies of the survey reports as soon as practicable, in order that they may be of the

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"maximum use in connection with the proposed conference.

"Both Mr. Grayson and Mr. Walden expressed the view that such a survey would be decidedly helpful, particularly if the reports thereof could be interchanged in ample time for each auditor to study carefully the reports prepared by the other reserve banks prior to the date of the conference. It would appear that in order for each bank to complete the survey and have an opportunity to study the reports of the other banks prior to the conference, it would be desirable to defer the conference for a month or so. Both Mr. Grayson and Mr. Walden, after considering the work involved in the preparation and study of the survey reports, are of this opinion. It is suggested, therefore, that if it can be conveniently arranged, the conference be held in the first part of November, perhaps called for November 10."

Approved unanimously.

Letter to Mr. Newton, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Your letter of August 12, 1936, with respect to the delivery of and payment for 10,000,000 Cuban silver pesos through the Havana Agency, has been brought to the attention of the Board of Governors, and I have been requested to advise you that the Board interposes no objection to your bank making arrangements with the Export-Import Bank for the delivery of and payment for the shipment of pesos which are to be coined for the Cuban Government at the Philadelphia mint. This action is taken by the Board with the understanding that the procedure followed in this instance will be substantially the same as that followed in connection with previous shipments of pesos, and that the Cuban Government will pay all expenses and charges incident to the delivery and payment.

"It will be appreciated if you will forward to the Board when available a detailed statement of the arrangement made with the Export-Import Bank."

Approved unanimously.

Letter to the presidents of all Federal reserve banks, reading as follows:

"The Board's letters of June 15, 1933, (X-7499) and

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"December 14, 1933, (X-7716) stated that unless otherwise indicated 'X' letters (including interpretations of the banking acts) sent to the Federal reserve banks by the Board were not for distribution outside of the Federal reserve banks but that the information contained therein could be used in answering inquiries received by the banks.

"It has come to the Board's attention that examiners and possibly officers and other members of the staffs of the Federal reserve banks have been hesitant about discussing interpretations and rulings contained in 'X' letters and felt that they were somewhat restricted in giving out the information contained therein. It is not the Board's intention to restrict the use of the substance of the interpretations and rulings contained in 'X' letters or of the identical language thereof in answering inquiries received by the banks so long as the 'X' letters themselves are not given out or the language quoted or identified as being an interpretation or ruling contained in a specific 'X' letter. In other words, members of your staff should feel entirely free to incorporate to the extent appropriate in the circumstances the substance, or even the language containing the substance, of rulings and interpretations embodied in 'X' letters issued by the Board, in replies to written or other inquiries received from banks and other interested parties, and it is believed that this practice can be followed without distribution of the 'X' letters themselves or the language thereof being quoted or identified with a particular 'X' letter.

"The suggestion has also been made that 'X' letters sent by the Board to the Federal reserve banks containing interpretations and rulings under the Board's regulations or the Banking Act of 1935 be given a distinctive letter or number for purposes of prompt identification with the subject matter involved and as a means of determining whether the Federal reserve bank's file with respect thereto is complete. The Board has given consideration to this matter and has adopted a procedure under which the 'X' letters and telegrams which are sent to all Federal reserve banks and which contain interpretations and rulings issued in connection with regulations of the Board (or provisions of law on which regulations are based, such as Sec. 11(k)) will carry in each case a reference to the applicable regulation and a serial number, such as X-9425, or, in the event a particular ruling or interpretation is under a section of the law but not under a regulation of the Board, it will be so designated by a refer-

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"ence to the law followed by a serial number such as X-9426
 or X-9427 ^{Sec. 4 FRA-6} Emergency Banking Act-6. In some cases there may be differences of opinion as to the appropriateness of the designations given but, notwithstanding some possible difficulties of this kind, it is hoped that the new procedure may be of assistance to the Federal reserve banks in classifying and identifying the Board's rulings and interpretations.

"In order that this procedure may be applied to interpretations issued since approval of the Banking Act of 1935, auxiliary numbers have been assigned to such 'X' letters and telegrams issued since August 23, 1935, and there is inclosed herewith a list of such 'X' letters and telegrams giving the appropriate designation and number in each case. The inclosed list includes all of the interpretations sent to all Federal reserve banks which have been issued under Regulation T, commencing with Ruling Number One under this regulation, dated September 29, 1934. Of course, X-letters, which will not contain rulings or interpretations and which will not be affected by the new procedure, will continue to be sent by the Board to the Federal reserve banks and will bear in each case only an X-number as in the past.

"In the past the series of 'X' numbers has been applied to inter-office memoranda and statements as well as communications sent to the Federal reserve banks. Hereafter, in order that Federal reserve banks may be able to check the completeness of their files of 'X' letters, 'X' numbers will be applied only to communications sent to all Federal reserve banks, so that the numbers on such communications will run consecutively in all cases."

Approved unanimously.

Letter to Mr. S. J. Broad, Chairman, Special Committee to Revise Bulletin, American Institute of Accountants, New York, New York, reading as follows:

"Reference is made to your letter of August 4, 1936, to Mr. Leo H. Paulger, Chief of the Board's Division of Examinations, relative to your conference with him on July 15, 1936, regarding the bulletin, 'Examination of Financial Statements by Independent Public Accountants', which represents a revision of the bulletin prepared by the American

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"Institute of Accountants in 1929 and published by the Federal Reserve Board under the title 'Verification of Financial Statements'.

"It is understood that you and the other members of your committee devoted much time and thought to the work of revising the bulletin and, as Mr. John L. Carey, Secretary, American Institute of Accountants, was advised under date of February 25, 1936, the Board is pleased to note the continued efforts of the Institute in seeking wide adherence to, and consistency in the application of, sound accounting principles in the preparation of financial statements.

"Inasmuch as the current revision was prepared by your committee for the purpose of superseding the 1929 edition, the Board has discontinued the distribution of the bulletin, 'Verification of Financial Statements', except when a specific request is made for a copy of the old edition notwithstanding the fact that it has been superseded. In all other cases, persons requesting the bulletin are advised that the publication has been revised by the American Institute of Accountants under the title 'Examination of Financial Statements by Independent Public Accountants' and that the new edition may be obtained from the Institute."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morril
Secretary.

Approved:

Frank J. ...
Vice Chairman.