

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 20, 1936, at 11:00 a. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

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 August 19, 1936, were approved unanimously.

Telegram to Mr. Moore, Chairman of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Telegram to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, referring to his telegram of August 19, 1936, in which he advised that because of the lack of a quorum a meeting of the board of directors of the bank was not held on that date and no action was taken on the bank's existing schedule of rates of discount and purchase. The proposed telegram called attention to the Board's letter of January 13, 1936 (X-9427), and requested advice as to what steps had been taken

8/20/36

-2-

to establish rates of discount as required by Section 14(d) of the Federal Reserve Act.

Approved unanimously.

Letter to Mr. Harrison, President of the Federal Reserve Bank of New York, prepared pursuant to the action taken at the meeting of the Board on August 19, 1936, and reading as follows:

"Reference is made to your letters of July 31 and August 18, 1936, with respect to the action of the directors of your bank in fixing, subject to the approval of the Board of Governors, a salary for Mr. Sailer for the period beginning September 1, 1936, and ending December 31, 1936, at the rate of \$30,000 per annum and to the discussion of this matter at the meeting of the Board on August 19, 1936, when you were present.

"The Board has considered this matter carefully in view of your statement of the desire of your board of directors that Mr. Sailer be retained for an additional period up to December 31, 1936, and of your need for his assistance during this period in working out the plans of your bank for reorganization of personnel and functions and effecting economies in its operation because of the fact that he has been the officer of your bank directly charged with responsibility for administrative functions and has an intimate knowledge of the details of organization, budgets and expenditures of the bank which you feel will be especially helpful to you as President of the bank.

"The Board has requested me to advise you that in view of the special circumstances thus presented for consideration it approves the payment of salary at the rate of \$30,000 per annum to Mr. Sailer for the additional period covered by the action of your directors beginning September 1 and ending not later than December 31, 1936, with the definite understanding that he will retire on or before the latter date, that there will be no further request for approval of any compensation for him, and that this action is final."

Approved unanimously.

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

8/20/36

-3-

the report received from the Federal Reserve Bank of Atlanta 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 Newton, 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 of the Federal Reserve Bank of Atlanta, a copy of which was recently transmitted to the Board.

"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

8/20/36

-4-

- "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. The Board notes with approval the proposed plan to elect Assistant Federal Reserve Agent Clark a Vice President and to place the bank examination department under his supervision. It is understood that your directors propose that Mr. Clark as Vice President will continue to receive a salary at the rate of \$7,500 per annum and the Board approves a salary for Mr. Clark as Vice President at that rate for the balance of the current year as and when fixed by your directors. The Board approves also the designation of Mr. Clark as an examiner for the Federal Reserve Bank of Atlanta.

"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.

8/20/36

-5-

"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 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

8/20/36

-6-

"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 any 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.

"Your proposed recommendation to the directors of the bank as to changes in salaries of officers as of January 1, 1937, has been noted. Any recommendations made by your directors in this connection will be considered by the Board when the salaries fixed for the officers of other Federal Reserve banks are considered at the first of the year.

"With respect to the statutory duties of the Federal Reserve agent, there is attached a copy of a letter being addressed to Mr. Martin today in connection with the appointment of an Assistant Federal Reserve agent, and an Alternate Assistant Federal Reserve agent at the bank.

"It is not expected that the Assistant Federal Reserve agent will be charged with responsibility under section 50 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.

"Effective when Mr. McCravey has executed the customary bond as Assistant Federal Reserve Agent in accordance with the Board's separate letter of this date to Mr. Martin, or as soon

8/20/36

-7-

"thereafter as is convenient, the Board authorized the transfer to the bank, in conformity with this letter, of the non-statutory duties previously performed in the Agent's department. Please advise the Board by wire, for its records, the date upon which the transfer is effected."

The proposed letter was approved unanimously together with the letter to Federal Reserve Agent Martin referred to therein which read as follows:

"Referring to your letter of August 17, 1936, the Board approves the appointment of Mr. J. R. McCravey, Jr. as Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta at a salary of \$4,000 per annum, effective as of the date the non-statutory functions of the Federal Reserve Agent are transferred to the bank. It is understood that before entering upon his new duties, Mr. McCravey will execute the usual oath of office and surety bond in the amount of \$50,000 and that such bond will be examined by your Counsel to see that its execution complies fully with the rules printed on the reverse side of the bond, Form 182. The bond should, of course, promptly thereafter be forwarded to the Board for approval.

"It is assumed that you will wish to appoint also an Alternate Assistant Federal Reserve Agent to act in the absence of the Assistant Federal Reserve Agent. The Board is prepared to approve the appointment of someone for this position upon your recommendation that such appointment be made. The primary duties of the employees designated as Assistant Federal Reserve Agent and Alternate will be in connection with the issuance and retirement of Federal Reserve notes and the custody of collateral therefor, and when not engaged in such work, they may be designated by the Federal Reserve Agent with the approval of the President to perform such other work in the bank as will not be inconsistent with their duties as Assistant Federal Reserve Agent and Alternate Assistant Federal Reserve Agent, respectively."

In connection with the above matter a letter to Mr. Newton, President of the Federal Reserve Bank of Atlanta, reading as follows, was also approved:

"It has been noted from the organization chart of the Federal Reserve Bank of Atlanta that it is proposed that Vice

8/20/36

-8-

"President Conniff will have general supervision of the Fiscal Agency and Safe-keeping Departments including purchases and sales of Government securities for the account of member banks, while Assistant Cashier Schuessler, who it is understood is Mr. Conniff's brother-in-law, will have immediate supervision of such functions.

"The Board feels that, as a general policy, such a close relationship between an officer in immediate charge of work of the kind referred to and his supervising officer is undesirable, and that a change in the arrangement would be advisable. The Board is sure that you will recognize the wisdom of such a change, and it will appreciate receiving advice as to the action taken to bring it about.

"Of course this suggestion does not reflect in any way upon either of the officers involved, nor does the Board question in any way their honesty or integrity or their devotion to their duties and to the bank, and it is requested that when you advise them of the reason for the change you make this point clear to them."

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

"In accordance with the recommendation contained in your letter of August 10, the Board of Governors approves the appointment of Mr. I. J. Reed as Acting Assistant Federal Reserve Agent at the Houston Branch of the Federal Reserve Bank of Dallas, with the understanding that before the appointment becomes effective Mr. Reed will resign his position in the Auditing Department of the bank and thereafter will be retained on the Agent's payroll and be solely responsible to him. In addition to performing duties in the Agent's Department Mr. Reed may be detailed by you, with the approval of the President, to perform such other work as shall not be inconsistent with his duties as Acting Assistant Federal Reserve Agent. Approval of the salary proposed for Mr. Reed in the new position is not necessary, as the position of Acting Assistant Federal Reserve Agent is provided for in your personnel classification plan and the salary to be paid to Mr. Reed is less than the maximum fixed for that position.

"Before entering upon his duties as Acting Assistant Federal Reserve Agent, Mr. Reed should execute the usual oath of office and surety bond in the amount of \$50,000, and such bond should be examined by your counsel to see that it complies fully with the rules printed on the reverse side of the bond form 182 and thereafter forwarded promptly to the Board

8/20/36

-9-

"of Governors for approval.

"Please advise if there is any objection to the cancellation of the bond of Mr. D. S. Lawhon as Acting Assistant Federal Reserve Agent as of the close of August 31, 1936, on which date his services will be terminated. In this connection, your letter of August 13, 1936, inclosing copies of your correspondence with Congressman Maverick with respect to the retirement of Mr. Lawhon, has been received."

Approved unanimously.

Memorandum dated August 17, 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:

Report by Executive Officer of a Member Bank of His Indebtedness Evidenced by a Note Discounted by Another Bank.

Report by Executive Officer of a Member Bank of Indebtedness to Another Bank in its Capacity as Trustee.

Deposit of Collateral with Trust Department for Use of Trust Funds in Conduct of Bank's Business.

National Bank Not Permitted to Invest Trust Funds in Obligations Executed by an Officer of such Bank as a Receiver.

Record of Pending Litigation Required by Board's Regulation F.

Approved unanimously.

Letter to Mr. Evans, Assistant Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"This will acknowledge receipt of your letter of August 10, 1936, returning the file of correspondence which was loaned to President McKinney in connection with certain charges

8/20/36

-10-

"made by banks in Austin, Texas, for cashing out-of-town checks. It is noted that you and President McKinney, before he left on his vacation, had an informal conference on this subject with representatives of the Austin Clearing House Association.

"The Board has received a letter dated August 5, 1936, from Mr. Roderick H. Riley, who first presented this matter to the Board in a letter dated October 23, 1935. A copy of the Board's reply to Mr. Riley's latest letter is inclosed herewith for your information. Mr. Riley has advised that his previous inquiry was not based on his experience as a non-depositor availing of a bank's services but as a customer of an Austin store which passed on to him the 4¢ charge it bore when his out-of-town check was accepted by its bank for collection. You will observe that the Board has stated in its letter to Mr. Riley that the charge made of him was not a charge made by a member bank of the Federal Reserve System and a charge made by a store is not a matter with respect to which the Board of Governors has any jurisdiction under the law.

"In view of the advice contained in Mr. Riley's latest letter to the Board, there is now before the Board no complaint and no allegation of violation of law made by any interested party with respect to collection charges imposed by member banks in Austin, Texas. Moreover, the record is not altogether clear as to just what questions might have been involved in the matter on the basis of Mr. Riley's original inquiry of last October. The Board feels that it is undesirable as a matter of policy for it to undertake to pass upon questions of a hypothetical or abstract character or questions with respect to which clear and complete information is not before the Board. In this case, in the absence of a complaint presented by any person directly interested in the determination of the matter or of a statement of an examiner or other official indicating a violation of law, there appears to be no occasion for the Board of Governors to undertake at this time to make any definite ruling on any of the questions which have been under consideration in connection with the matter."

Approved unanimously, together with
a letter to Mr. Roderick H. Riley, Austin,
Texas, reading as follows:

"This will acknowledge receipt of your letter of August

8/20/36

-11-

"5, 1936, referring to your letter of October 23, 1935, and the Board's reply thereto dated November 7, 1935, concerning the amount which you were required to pay in connection with the collection of a check.

"You now advise that your inquiry was based not on your experience as a non-depositor availing of a bank's services but as a customer of an Austin store which passed on to you the 4¢ charge it bore when your out-of-town check was accepted by its bank for collection. It thus appears that your inquiry arose out of a transaction between yourself and a store and not out of a transaction between yourself and a bank. The charge made of you, therefore, was not a charge made by a member bank of the Federal Reserve System and a charge made by a store is not a matter with respect to which the Board of Governors has any jurisdiction under the law."

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

"Under date of August 13 the Bureau of Engraving and Printing advised the Board of Governors of the Federal Reserve System that effective July 1, 1936 the charge for printing Federal Reserve notes was increased from \$86 to \$93.50 for 1,000 sheets of 12 notes each.

"This increase in printing costs, it is stated, is due to an increase from 15 to 26 days in annual leave and to the extension of the 40-hour week and of sick leave at the rate of 1-1/4 days a month to all employees of the Bureau of Engraving and Printing."

Approved unanimously.

Memorandum dated July 31, 1936, from Mr. Foulk, Fiscal Agent, recommending the purchase of a new check protectograph at a net cost of \$384.75. The memorandum stated that approval by the Board of the purchase of a new machine was necessary for the reason that no provision for such purchase was made in the budget for the Fiscal Agent's office for the year 1936.

Approved unanimously.

8/20/36

-12-

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

Frank Finson
Vice Chairman.