

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, August 29, 1936, at 10:30 a. m.

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

Mr. Bethea, Assistant 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 28, 1936, were approved unanimously.

Memorandum dated August 22, 1936, from Mr. Broderick submitting the report received from the Federal Reserve Bank of San Francisco 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 Day, 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 San Francisco, forwarded with your letter of June 11, 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

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

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"president at that rate as and when fixed by your directors. The Board approves also the designation of Mr. Sargent as an examiner for the Federal Reserve Bank of San Francisco.

"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 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.

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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.

"Publication 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 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,

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"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, an Assistant Federal Reserve agent and one or more alternate 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 the Assistant Federal Reserve agent and alternates are 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, they will perform other work in the bank which is not inconsistent with their duties as Assistant Federal Reserve agent and alternates, respectively.

"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 11, 1936, that it is proposed to have Mr. Sonne, Chief Examiner, serve also 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 in connection 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. Moore, Federal Reserve Agent, is today being apprised of the Board's views in this connection, and is being requested to recommend to the Board the appointment of someone satisfactory to him who will be qualified in accordance with the views herein expressed to act as Assistant Federal Reserve agent.

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"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 resignations to be submitted by Assistant Federal Reserve Agents Sargent and Wheeler."

The proposed letter was approved unanimously, together with the following letter to Mr. Moore, Federal Reserve Agent, referred to therein:

"Reference is made to your letter of June 11, 1936, recommending the appointment of Mr. H. A. Sonne, Chief Examiner, to serve as Assistant Federal Reserve Agent after the non-statutory duties have been transferred from the Federal Reserve Agent to the bank.

"As Mr. Sargent was advised in the Board's telegram of June 23, 1936, (Trans 2406) Assistant Federal Reserve Agents appointed after the transfer of the non-statutory 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. It would be inconsistent with the views above expressed to approve the appointment of Mr. Sonne, Chief Examiner, as Assistant Federal Reserve Agent, and it will accordingly be appreciated if you will recommend to the Board someone satisfactory to you to serve as Assistant Federal Reserve Agent whose primary duties will be in connection with the issuance and retirement of Federal reserve notes. However, the Board is prepared to approve the appointment of Mr. Sonne, Chief Examiner, as Alternate Assistant Federal Reserve Agent, should you so recommend.

"The Board is prepared to approve the appointment of W. D. Shortt, Assistant Examiner, as Assistant Federal Reserve Agent or as Alternate Assistant Federal Reserve Agent at the head office, but will defer taking any action in the matter pending the receipt of a definite recommendation from you. In the event Mr. Shortt should be appointed Assistant Federal Reserve Agent, it would be expected that his primary duties would be in connection with the issuance

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"and retirement of Federal reserve notes and that he would be carried on the Federal Reserve Agent's payroll.

"As you know, the Board has previously approved the appointment of Mr. H. D. Swengel, Examiner, as Acting Assistant Federal Reserve Agent at the Los Angeles branch, and accordingly further action by the Board regarding his services in that capacity is unnecessary.

"There is attached for your information a copy of a letter which has today been sent to President Day regarding the transfer of the non-statutory functions of the Federal Reserve Agent to the bank."

Telegram to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Under date of August 5 Deputy Chairman Dillard submitted preliminary report showing progress in survey of operations of the bank and stated complete report would be furnished later. Board desires to effect transfer of non-statutory functions of Federal Reserve Agent to bank as soon as possible and would appreciate advice as to when additional information on survey may be expected. Board particularly anxious to receive copy of proposed organization chart and advice of proposed changes in official staff."

Approved unanimously.

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

"Re your telegram August 24 re letter X-9048. In view of the transfer of the bank examination department to the Federal Reserve Bank, it is considered appropriate that the authority previously conferred under the provisions of letter X-9048 upon the Federal Reserve Agent to approve in certain circumstances reductions of preferred stock or capital notes or debentures be transferred to the President of the reserve bank. Accordingly, you are authorized to approve such reductions in the circumstances and within the limitations in which the Federal Reserve Agent has heretofore been authorized by the Board to approve such reductions. Please advise Mr. Geery."

Approved unanimously.

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Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your telegram of August 17, 1936, with reference to the advertisement of the First Federal Savings and Loan Association of Hollywood that it is a member of the Federal Reserve System, and the Board's letter to you of August 25, 1936, advising that the matter had been called to the attention of the Federal Home Loan Bank Board.

"Advice has now been received from the Federal Home Loan Bank Board that the advertisement in question appeared in only one issue of a Hollywood newspaper and that the matter has been taken up with the First Federal Savings and Loan Association of Hollywood to correct the error which was caused inadvertently by the individual preparing the advertising copy. In the circumstances, the Board feels that it will not be necessary for you to make a report of this matter to the local United States District Attorney or for the Board to report the matter to the Department of Justice. Of course, if any further advertisements of the kind above referred to come to your attention, please immediately call them to the attention of the Board."

Approved unanimously.

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

"It has been fifteen years since a transit conference has been held, and it seems to the Board that since the transit department is one of the largest and most expensive functions of a Federal Reserve bank it would be particularly advantageous to have the men who are responsible for the operations of the transit departments of the Reserve banks get together for the purpose of discussing their respective problems and of endeavoring to ascertain whether substantial economies could be effected through the adoption throughout the System generally of operating practices which experience has shown to be most economical and efficient. Representatives of the Division of Bank Operations, in the course of their studies of functional expenses, have reviewed the procedure followed in handling country checks and have noted

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"differences in conditions and procedure which are reflected in costs which vary to such extent that at one bank the unit cost is double that at another bank. It is realized, of course, that the transit managers of many of the banks are familiar with the procedure followed in transit departments of the other Federal Reserve banks and that the mechanics of handling checks have been developed in many cases after the transit men have visited transit departments of other banks which operate under somewhat similar conditions. New methods are constantly being developed and new ideas being put into effect, however, and it is believed that much good would result if the transit men from all Federal Reserve banks got together for a conference.

"If the calling of a transit conference meets with your approval, it is suggested that you ask all of the Federal Reserve banks to furnish a list of the topics they would like to have placed on the conference program. After the replies have been received it is quite possible that it would be advisable to ask two good transit men to go over the suggestions and work out a worthwhile program. The Board will be glad to have a representative meet with the transit men in drafting the program. It is hoped that the conference may be held not later than the early part of December.

"In addition to the suggested topics for the program it might be well to have the representative from each bank bring with him a set of forms used in the transit department and a chart showing the flow of work through each unit of the department. This matter, it would seem, could best be considered by the transit men designated to work out the final program for the conference."

Approved unanimously.

Letter to the presidents and Federal reserve agents at all Federal reserve banks, reading as follows:

"Under the provisions of section 30 of the Banking Act of 1933, an officer or director of a State member bank who continues to violate any law relating to such bank or continues unsafe or unsound practices in conducting the business of the bank, after having been warned by the Federal Reserve Agent to discontinue the violations of law or

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"unsafe or unsound practices, may, after a hearing, be removed from office by the Board upon the basis of the facts certified to the Board by the Federal Reserve Agent. As you know, the revised form of report of examination forwarded to all of the Federal Reserve Agents with the Board's letter of April 12, 1934 (X-7857) contained instructions to the examiners for the Federal reserve banks to report in connection with the examination of any State member bank whether a warning should be issued under section 30 of the Banking Act of 1933 to any officer or director of the bank. The specific instructions on this point were as follows: (Page B of the confidential section)

- '16. State whether any director or officer is violating any law relating to the bank or is responsible for unsafe or unsound banking practices, against which he should be warned by the Federal Reserve Agent in accordance with section 30 of the Banking Act of 1933.

If previously warned, have such violations or unsafe or unsound practices been continued?'

"Proceedings under section 30 in the case of State member banks are based upon findings of the Federal Reserve Agent and, after the transfer of the nonstatutory duties of the Federal Reserve Agent to the Federal reserve bank, the officer in charge of examinations should be charged with the responsibility of keeping the Federal Reserve Agent advised of any situations wherein it might be advisable to proceed under the provisions of section 30. Sound management is of primary importance in the maintenance of a sound bank, and use should be made of the powers conferred by section 30 to stop abuses and prevent the development of dangerous trends whenever the circumstances warrant such action. In this connection, however, it may be stated that the Board of Governors feels that in enacting the provisions of section 30 Congress did not contemplate that proceedings under that section would be utilized for the correction of trivial matters. The powers conferred by such section should be exercised in cases where other means of obtaining corrections of significant violations of law or of unsound banking practices of substantial importance or indicative of a dangerous trend have failed, or where such other means apparently would be less appropriate or should be supplemented by action under section 30.

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"It is suggested that, if you have not already done so, you impress upon the examiners for your bank the necessity of developing information as to whether any violations of law or any unsound banking practices disclosed by their examination of a State member bank warrant a warning of the kind contemplated by the provisions of section 30 of the Banking Act of 1933. It is assumed, of course, that in reviewing reports of examination of State member banks careful consideration will also be given by the Federal reserve banks to the question of management and to the responsibilities of the Federal Reserve Agents and the Federal reserve banks under section 30 of the Banking Act of 1933. It is requested that whenever any such warning is issued a copy thereof be forwarded promptly to the Board for its information.

"In some cases which have come to the attention of the Board, it was questionable whether the warning given under the provisions of section 30 complied with the technical requirements of that section. In view of the controversial questions which may be presented in any proceedings under section 30 to remove an officer or director from office, it is of the utmost importance that any warning given under the provisions of that section, as well as any other proceedings thereunder, should comply with the technical requirements of the law. It is requested, therefore, that you confer with your counsel regarding the form of any such warning and the manner of the service upon the person or persons involved. As you know, such a warning constitutes the first step in the proceedings leading up to a hearing by the Board under the provisions of section 30 for the purpose of determining whether an officer or director of a State member bank should be removed from office. Accordingly, if in view of the facts in any particular case your counsel feels that it would be desirable for him to consult with counsel for the Board before the warning is issued, it is requested that he do so."

Approved unanimously, with the understanding that a copy of the letter would be sent to the Comptroller of the Currency.

Letter to Mr. Dillistin, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

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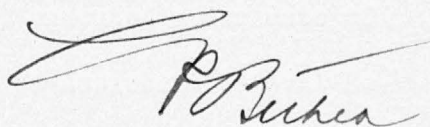
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"Reference is made to Mr. Case's letter of January 18, 1936, in which he states that he and counsel for your bank are of the opinion that section 32 of the Banking Act of 1933 is not applicable to the services of Mr. Louis F. Rothschild and Mr. Walter E. Sachs as advisers to the Investment Committee of Lawyers County Trust Company and as partners of L. F. Rothschild & Co. and Goldman, Sachs & Co., respectively, all of New York, New York.

"In view of the information contained in Mr. Case's letter, the Board sees no reason to differ with the conclusion set forth therein, and you are being so advised in order that the files in the matter may be closed."

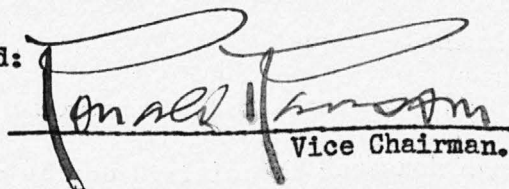
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.