

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 4, 1936, at 12:30 p. m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Wingfield, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Morse, Junior Research Assistant in the Division of Research and Statistics

Reference was made to two letters received under date of August 28, 1936, from the Federal Reserve Bank of New York transmitting copies of letters received by the bank from the Banco Central de Reserva de El Salvador requesting that the Federal reserve bank open an account on its books for the Banco Central de Reserva de El Salvador and that the reserve bank extend credit to the El Salvador bank in an amount up to ninety percent of \$592,000 of gold bars to be pledged as security for the loan. The letters stated that at the meeting of the executive committee of the board of directors of the Federal Reserve Bank of New York on August 27, 1936, for reasons stated in the letters, the officers were authorized, subject to the approval of the Board of Governors of the Federal Reserve System,

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to open and maintain an account on the books of the New York bank in the name of the Banco Central de Reserva de El Salvador and to carry out operations for that bank along substantially the same general lines and subject to substantially the same terms and conditions as for other central banks, as well as to make a loan or loans to the Banco Central de Reserva de El Salvador up to an aggregate at any one time of \$530,000.

At the request of Mr. Ransom, Mr. Wyatt explained that these matters had been referred to his office for a determination of the question whether the manner in which they had been handled by the Federal Reserve Bank of New York was in compliance with the provisions of section 14(g) of the Federal Reserve Act; that inclosures with a letter addressed by the New York bank to the Board on July 31, 1936, clearly showed that the bank had had correspondence with the Banco Central de Reserva de El Salvador prior to that date; that the Federal Reserve Bank of New York had been requested to forward to the Board all previous correspondence regarding the proposed account and loan or loans; that copies of such correspondence had been received; and that the complete file shows that the Federal Reserve Bank of New York, in conducting negotiations with the Banco Central de Reserva de El Salvador, had violated both the spirit and letter of section 14(g) of the Federal Reserve Act.

Mr. Ransom pointed out that the matter had also been considered by Mr. Dreibelbis, Assistant General Counsel, and that in a memorandum dated September 3, 1936, he had submitted the following recommendation:

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"It is my conclusion that the officers of the Federal Reserve Bank of New York, in the instant case, have violated section 14(g) of the Federal Reserve Act and the Board's Regulation N by conducting negotiations with the Banco Central de Reserva de El Salvador, San Salvador, El Salvador, C. A., without first obtaining the permission of the Board of Governors of the Federal Reserve System. However, it is entirely possible that the violation resulted from a misconstruction of the term 'shall conduct negotiations' as used in section 14(g); and such misconstruction may have resulted at least in part from the prior conduct of this Board in connection with similar cases. For this reason and the other reasons hereinafter stated in this memorandum, I recommend that, if the Board is satisfied with the transactions in all other respects, it approve both requests of the Federal Reserve Bank of New York, but that the New York Bank be advised of the Board's interpretation of the language used in section 14(g) of the Federal Reserve Act and request that, in the future, before conducting any negotiations with any foreign bank or banker, it first obtain the permission of the Board."

Upon inquiry, Mr. Thomas stated that the matter had been reviewed by the Division of Research and Statistics and he knew of no reason why the Board should not give its approval to the opening of the account and the extension of the proposed loan or loans. Upon further inquiry, Mr. Wyatt stated that the Board's position in the matter was not affected by the violation by the Federal Reserve Bank of New York of the provisions of section 14(g) and that if the Board should decide as a matter of policy to give its approval, he knew of no legal reason why it should not do so.

There followed a discussion of the action that the Board might take in the circumstances during which a draft of a letter submitted by Mr. Dreibelbis with his memorandum of September 3, 1936, was amended to

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read as follows:

"This will confirm the Board's telegram to you of this date, a copy of which is inclosed, in response to your letters of August 28, 1936, in regard to opening and maintaining an account on your books in the name of Banco Central de Reserva de El Salvador and to making a loan or loans to that institution. Please forward to the Board copies of any correspondence to the El Salvador bank setting forth the terms and conditions upon which the transactions referred to in the Board's telegram will be executed, together with copies of any communications from that bank accepting such terms and conditions.

"The information and correspondence which has been furnished to the Board in connection with this matter discloses the fact that the negotiations respecting the deposit of gold by and a loan to the El Salvador bank against the security of such gold were initiated by an exchange of letters between the El Salvador bank and the Federal Reserve Bank of New York under dates of March 18 and March 27, 1936, respectively, and were continued by subsequent correspondence without the Federal Reserve Bank of New York first having obtained the permission of the Board of Governors to conduct such negotiations as required by the provisions of section 14(g) of the Federal Reserve Act. In view of the clear mandate contained in section 14(g) that 'The Board of Governors of the Federal Reserve System shall exercise special supervision over all relationships and transactions of any kind entered into by any Federal Reserve bank with any foreign bank or banker, or with any group of foreign banks or bankers,' the Board feels that it cannot permit this incident to pass without comment and that it must insist that hereafter the Federal Reserve Bank of New York obtain the permission of the Board of Governors before opening or conducting negotiations of any kind with the officers or representatives of any foreign bank or banker. Your cooperation to this end will be appreciated."

The telegram referred to in the above letter read as follows:

"Your letters August 28. Board approves action your executive committee in authorizing officers your bank to open and maintain account on your books in name of Banco Central de Reserva de El Salvador and to carry out operations in this market for that bank along substantially same

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"general lines and subject to substantially same terms and conditions as for other foreign central banks having accounts with you. Please forward to Board copy of your letter to Banco Central de Reserva de El Salvador setting forth terms and conditions upon which account with that institution will be opened and maintained, together with copy of communication from bank accepting such terms and conditions.

"Board also approves action your executive committee in authorizing officers of Federal Reserve Bank of New York to make, at any time and from time to time, a loan or loans to Banco Central de Reserva de El Salvador, the amount of such loan or loans not to exceed at any one time \$530,000 and such loan or loans to mature not later than February 28, 1937, to bear interest at the discount rate of your bank, to be secured by refined gold bars having a value of \$592,000 earmarked at Federal Reserve Bank of San Francisco or Seattle Branch or in the vaults of your bank, and otherwise to be made on such terms and conditions as the officers of the Federal Reserve Bank of New York may determine. It is understood that authority was voted in form indicated inasmuch as it seems desirable that loaning officers should have authority which will enable them to work out with El Salvador bank a schedule of advances as its needs develop and, later, a schedule of repayments as dollar funds become available to it. It is also understood that reason for provision for earmarking gold at San Francisco bank or branch is gold is presumably held at Vancouver, B. C., and that if such arrangement is found desirable matter will be taken up with San Francisco bank. Participation in loan or loans and new account by other Federal reserve banks is approved and they are being advised accordingly by letter today. Letter follows."

At the conclusion of the discussion, Mr. Broderick moved that the letter and telegram be approved with the understanding that they would be transmitted immediately and that a copy of the telegram would be sent to the presidents of all Federal reserve banks.

Mr. Broderick's motion was put by the Chair and carried, Mr. Ransom voting "no" for the reason that, in his opinion, the provisions of section 14(g) had not been complied with by reason of the failure of the Federal Reserve Bank of New

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York to communicate immediately with the Board when negotiations were first opened. He made the further statement for the record that he saw no other objection to the opening of the account and the extension of the loan or loans by the Federal Reserve Bank of New York.

At this point Messrs. Thomas and Morse left the meeting.

Mr. McKee reviewed the efforts which had been made to meet the problem presented by the continued unsatisfactory condition of the Perth Amboy Trust Company and the Raritan Trust Company, and more recently the First National Bank, all of Perth Amboy, New Jersey. He also reviewed the circumstances surrounding the two letters addressed to the Board by the Federal Deposit Insurance Corporation under date of April 29, 1936, submitting, pursuant to the provisions of paragraph (1) of subsection (i) of section 12B of the Federal Reserve Act, statements of facts relating to unsafe and unsound practices in the conduct of the business of the Perth Amboy Trust Company and the Raritan Trust Company, the Board's letter of August 11, 1936, to the Chairman of the Federal Deposit Insurance Corporation with respect to deferring the notices to the State member banks under the provisions of section 12B(i)(1), and Mr. Crowley's letter of August 12 which read as follows:

"Receipt is acknowledged of your letter of August 11th relative to the Perth Amboy Trust Company and the Raritan Trust Company, both of Perth Amboy, New Jersey. The Corporation feels, for the reasons indicated, that it is desirable to follow the procedure described in your letter, and it

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"will, of course, continue to cooperate with your Board and the Federal Reserve Bank of New York in endeavoring to work out the situation."

Mr. McKee stated that the efforts to find a solution for the Perth Amboy situation had not been successful and that he was bringing the matter to the attention of the members of the Board in order that they might be fully informed. He added that recently the Board's Division of Examinations had received an informal request from the Federal Deposit Insurance Corporation that the Board's file of correspondence on the Perth Amboy situation be loaned to the Corporation, and that the Corporation's representative had been advised that while the Division of Examinations had no authority to permit the Board's official files to leave its offices, the file could be reviewed by a member of the staff of the Federal Deposit Insurance Corporation in the offices of the Division. He also stated that as yet a representative of the Corporation had not called at the Division for the purpose indicated.

There followed a discussion of the present position of the Board in the light of the letter received from the Chairman of the Federal Deposit Insurance Corporation under date of August 12, 1936, and what, if any, action should be taken by the Board in the premises.

At the conclusion of the discussion it was understood that Mr. McKee would arrange a meeting early next week of representatives of the Board, the Federal Deposit Insurance Corporation, the Reconstruction Finance Corporation, and the New Jersey State banking authorities

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at the Federal Reserve Bank of New York for the purpose of considering what steps might be taken in the premises and that he would submit a report to the Board regarding the status of the matter before the end of next week.

At this point Messrs. Wyatt, Paulger, Wingfield and Leonard left the meeting and 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 September 3, 1936, were approved unanimously.

Telegrams to Messrs. Kimball, Strater, Young and Powell, Secretaries of the Federal Reserve Banks of New York, Cleveland, Chicago, and Minneapolis, respectively, stating that the Board approves the establishment without change by the New York bank on September 3, 1936, and by the Cleveland, Chicago and Minneapolis banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"Referring to your letter of August 29, 1936, the Board has noted with approval the changes shown below in the salaries of certain employees holding positions designated as appraised in the personnel classification plan of your bank.

<u>Name and position</u>	<u>Salary</u>	
	<u>From</u>	<u>To</u>
W. H. A. Johnson, Trust Examiner	\$7,500	\$6,000
A. L. Wilson, Examiner	5,500	5,000"

Approved unanimously.

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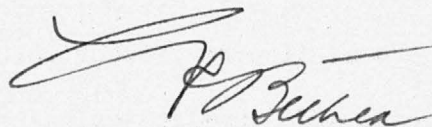
Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the recommendations of the Executive Committee of your bank, contained in your letters of August 21, 1936, and, pursuant to the provisions of section 19 of the Federal Reserve Act, grants permission to 'The Lorain Street Bank', Cleveland, Ohio, and the 'Allegheny Valley Bank of Pittsburgh', Pittsburgh, Pennsylvania, to maintain the same reserves against net demand deposits and time deposits as are required to be maintained by member banks not in reserve or central reserve cities, effective with the first semi-monthly reserve computation period beginning after the date of this letter.

"Please advise the respective banks of the Board's action in this matter, calling attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

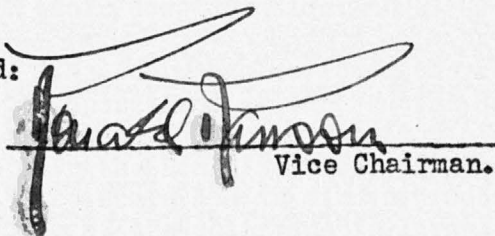
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.