

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

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

Mr. Bethea, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom stated for the information of the members of the Board that President Harrison of the Federal Reserve Bank of New York had called him on the telephone yesterday with regard to the Board's letter of August 20, 1936, approving the payment of salary at the rate of \$30,000 per annum to Mr. L. F. Sailer as Vice President of the bank for the additional period covered by the action of the board of directors of the New York bank 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 was final.

Mr. Ransom said that President Harrison had stated that he had submitted the matter to the board of directors of his bank and that, while he wished to express informally his appreciation of the action taken by the Board, several of the directors had been somewhat surprised at the finality of the last paragraph of the Board's letter in view of the fact that they had made no further request concerning Mr. Sailer, and they felt that the Board should not close the matter in such a manner that the New York

9/11/36

-2-

bank would be unable to reopen it if it so desired. Mr. Ransom indicated that during the conversation he had advised President Harrison that the letter was the result of carefully considered action taken by the Board and that, speaking for himself, he would not be disposed to reconsider the matter and that he believed the other members of the Board felt the same way. There followed a discussion in which the Board unanimously expressed approval of the position taken by Mr. Ransom.

Reference was made to the action taken at the meeting of the Board on July 28, 1936, terminating the services of Mr. J. M. Daiger as Special Assistant to the Board as of the close of September 30, 1936. Mr. Ransom stated that the matter was being presented to the Board again at this time because Mr. Daiger had not been informed of the action taken on July 28 and, in the meantime, had requested leave of absence for a period which would extend beyond October 1, 1936. Mr. Ransom stated further that Mr. Daiger had been actively engaged on several assignments given to him by the Chairman and, since it appeared that he was entitled to a vacation, he would suggest that the Board extend his appointment until October 15, 1936, at which time the Chairman will have returned to Washington.

Accordingly, upon motion by Mr. Szymczak, it was unanimously voted that, superseding the action taken by the Board on July 28, the services of Mr. Daiger as Special Assistant to the Board be terminated as of the close of October 15, 1936, with the understanding that the Chairman would personally handle the matter with Mr. Daiger.

Mr. Ransom then presented the following letter dated September 9, 1936, from Mr. Sproul, First Vice President of the Federal Reserve

9/11/36

-3-

Bank of New York:

"I am writing to inform you that Sir Claude Reading, Chairman of the Board of Directors of the Commonwealth Bank of Australia, Sydney, New South Wales, presented himself at this bank yesterday, he being in New York for a week or ten days while traveling from London, England, to Australia. As a courtesy, we have made available to him an office at this bank."

Mr. Ransom said that Mr. Sproul's letter had been acknowledged with a statement that it was being brought to the attention of the members of the Board and that he had asked Mr. Wyatt to draft for the consideration of the Board a letter to President Harrison reminding him of the Board's responsibilities under section 14(g) of the Federal Reserve Act and indicating what steps the Federal Reserve Bank of New York should take to enable the Board to "exercise special supervision over all relationships and transactions of any kind entered into by any Federal reserve bank with any foreign bank or banker", as required by the statute. Mr. Ransom then read to the meeting the draft of letter prepared by Mr. Wyatt which he (Mr. Ransom) explained was being submitted for the purpose of discussion and without any recommendation from either Mr. Wyatt or himself but as a statement of a view of the procedure which might be adopted. The proposed letter stated in substance that, while the Board recognized the desirability of extending every courtesy to representatives of foreign banks and bankers who visit a Federal reserve bank, it seemed unlikely that a high official of any foreign bank would spend a week or ten days in the Federal Reserve Bank of New York without availing himself of the opportunity to confer with the officers and other representatives of the bank about matters of mutual interest;

9/11/36

-4-

that one of the officers or representatives of the New York bank who is present at any conference which may be held with Sir Claude Reading during his visit or with any other officer or representative of any foreign bank or banker who hereafter visits the Federal Reserve Bank of New York should prepare and forward to the Board for its information a full report of each such conference; that Mr. Goldenweiser had been requested to proceed to New York and to remain there throughout the remainder of Sir Claude Reading's visit in order that he might be present at all conferences between Sir Claude Reading and any of the officers or representatives of the reserve bank which may occur subsequent to his arrival; that Mr. Goldenweiser would report to the Board with respect to the conferences attended by way of supplementing the reports required to be made by officers or representatives of the reserve bank; that the Board fully appreciates that visits of foreign bankers which may appear to be entirely social in their nature may lead unexpectedly to negotiations regarding proposed relationships or transactions with the reserve bank, and in such event it was suggested that the officers of the bank participating in the discussion should suspend the discussion as diplomatically as possible upon some pretext and communicate immediately with the Board and obtain its permission before proceeding with the negotiations; and, finally, that whenever a reserve bank learns that an officer or representative of any foreign bank or banker intends to visit the bank, it should advise the Board immediately and confer with the Chairman or, in his absence, the Vice Chairman as to the best means of handling any situation which may develop.

9/11/36

-5-

Mr. Wyatt reviewed the legislative history of section 14(g) of the Federal Reserve Act and read excerpts from Mr. Dreibelbis' memorandum to the Board dated September 3, 1936, pertaining to the interpretation of this provision of the law in connection with a request from the New York bank for permission to maintain an account for the Banco Central de Reserva de El Salvador.

Mr. Goldenweiser outlined some of the practical considerations leading up to the enactment of this provision of law in the Banking Act of 1933, and stated that while he was in sympathy with the objective of the proposed letter he did not favor the procedure outlined therein. He pointed out that the Federal Reserve Bank of New York in its capacity as fiscal agent for the Government had occasion to confer and negotiate frequently with foreign banks and bankers in connection with the operation of the Treasury Stabilization Fund and other activities of the Treasury, and that in functioning in this confidential capacity the officers were not in a position to make any reports with regard to such contacts to the Board of Governors. It seemed to him, he said, that the dual responsibility of the New York bank to the Treasury Department and to the Board of Governors was a factor which should be considered. He suggested, however, that it might be advisable to request the New York bank to call specifically the provisions of section 14(g) of the Federal Reserve Act to the attention of all visiting representatives of foreign central banks or foreign bankers.

Mr. Broderick said that in his judgment the officers of the New York bank intended to comply with the statute in these matters and that

9/11/36

-6-

the difficulties in the situation were largely a result of a difference of opinion as to the proper interpretation of the law. He suggested that any misunderstanding could best be clarified by asking President Harrison, First Vice President Sproul and Assistant Vice President Knoke to come to Washington after the return of Chairman Eccles and discuss the problem with the Board. He felt that further correspondence on the subject would contribute little toward a real solution of the problem.

Mr. Szymczak stated that during his visit at the New York bank earlier in the week Mr. Sproul had discussed with him the Board's telegram of August 25, 1936, in connection with the renewal of the credits to the National Bank of Hungary and had pointed out that too restrictive requirements governing the relations of the New York bank with foreign banks and bankers would, over a period of time, cause the discontinuance of many of the bank's foreign contacts and seriously curtail its facilities for keeping in touch with the foreign situation. He also said that, in line with Mr. Broderick's suggestion, he had observed while in New York that Mr. Logan, Vice President and General Counsel of the Federal Reserve Bank of New York, took a leading part in discussions on this subject and he thought that it would be desirable to ask him to come to Washington with the other officers referred to and participate in the conferences with the Board.

Mr. Ransom stated that he agreed with Mr. Broderick that the matter could be handled most satisfactorily by conference. He said, moreover, that he believed the subject a crucial issue to which the Board must give early consideration; that aside from the purely legal

9/11/36

-7-

aspects it involves a question of the spirit of compliance which is of utmost importance; and that he was convinced that the problem of exercising supervision over relationships with foreign central banks must be definitely solved.

There followed a full discussion during which Mr. Davis suggested that in lieu of the draft referred to above a letter be addressed to President Harrison supplementing the acknowledgment made to Mr. Sproul's letter of September 9, and stating that, as required by law, the Board will expect to receive from the appropriate officers of the New York bank complete reports covering the visit of Sir Claude Reading; that, if any negotiations or conferences are contemplated with Sir Claude Reading during his visit on behalf of the Federal Reserve System or the Federal Reserve Bank of New York, the Board should be promptly advised in order that it may be in position to discharge its responsibilities under section 14(g) of the Federal Reserve Act; and may arrange, if it deems it advisable, to have a representative go to New York while Sir Claude Reading is there to attend any meetings at which negotiations might be initiated.

Later in the meeting Mr. Davis submitted a draft of letter embodying his suggestions, which, with minor changes in phraseology made by Counsel at his request in order to conform with the language of the statute, by unanimous vote, was approved in the following form, with the understanding that it would be sent by the Assistant Secretary without further reference to the Board:

"This is written to supplement our acknowledgment of Mr. Sproul's notification of the visit of Sir Claude Reading, Chairman of the Board of Directors of the Commonwealth Bank of Australia.

9/11/36

-8-

"As required by section 14(g) of the Federal Reserve Act, the Board will expect to receive from the appropriate officers or representatives of your bank complete reports covering any conferences held during the visit. If any negotiations with Sir Claude Reading on behalf of the Federal Reserve System or the Federal Reserve Bank of New York are contemplated during his visit, please advise the Board promptly in order that it may be in a position to discharge its responsibilities under the aforesaid section and may arrange, if it deems it advisable, to have a representative present in New York during such conferences or negotiations."

During the discussion of the above matter, Mr. Paulger, Chief of the Division of Examinations, entered the meeting.

Mr. Szymczak stated that while in New York yesterday he had been advised by Mr. Burgess, Vice President of the Federal Reserve Bank of New York, that he had been asked by Dr. Harold Stonier, Director of the Graduate School of Banking of the American Institute of Banking, to conduct a course at the Graduate School of Banking at Rutgers University for a period of two weeks during June, 1937, and that he was inclined to accept the invitation if the Board of Governors had no objection.

No objection was offered by any member of the Board to Mr. Burgess' acceptance of the invitation, and it was understood that Mr. Szymczak would advise him accordingly.

At this point Mr. Goldenweiser left the meeting.

Mr. McKee reported that pursuant to action taken by the Board on September 4, 1936, with regard to the unsatisfactory condition of the Perth Amboy Trust Company and the Raritan Trust Company, both of Perth Amboy, New Jersey, he had conferred with representatives of the interested Federal agencies and with the attorney for the trust companies in an effort to work out a reorganization program. He out-

9/11/36

-9-

lined the progress which had been made at the conferences and stated that a more detailed report had been incorporated in his memorandum to the Board dated September 10, 1936, which he suggested be incorporated in the minutes of the Board to complete the record.

Accordingly, Mr. McKee submitted the following memorandum which the Board unanimously agreed should be incorporated in the minutes:

"Referring to the discussion of the subject banks during the Board meeting on September 4, 1936, it will be recalled that the matter was referred to the writer to see what could be done to complete the recapitalization undertaking.

"On September 8, 1936, Mr. Wilentz, Attorney General of the State of New Jersey and legal representative of the two subject State banks, appeared before a committee consisting of Mr. Gidney, representing the Federal Reserve Bank of New York, Mr. Paulger and Mr. Leonard, representing the Board's examining division, Mr. Wingfield, representing the Board's legal division, and myself. A program of procedure was discussed and outlined to Mr. Wilentz, who then left this office to call upon the Federal Deposit Insurance Corporation.

"The following morning a meeting was held in my office which was attended by Mr. Gidney of the Federal Reserve Bank of New York, Messrs. Paulger, Leonard, and Wingfield, of the Board's staff, Messrs. Husbands and McGrath of the Reconstruction Finance Corporation, Chairman Leo T. Crowley and his Administrative Assistant, Mr. John Nichols, of the Federal Deposit Insurance Corporation, and myself. After a thorough discussion of the problem, a general agreement was reached, subject to the approval of those in authority, that if and when Mr. Wilentz and his principals could raise \$60,000 as new capital stock for a new State institution in Perth Amboy and the Reconstruction Finance Corporation would make a commitment to add additional capital in the form of preferred stock up to \$200,000, the Federal Deposit Insurance Corporation would purchase assets from the two going institutions and with the help of the Federal Reserve Bank of New York, which had heretofore agreed to increasing its loan in order to aid, would restore the two present banks to solvency, and they would then be consolidated or absorbed by the new institution, the present ones going into voluntary liquidation. It was also agreed that Mr. Wilentz would be notified if the

9/11/36

-10-

"commitment was made by the Reconstruction Finance Corporation and given thirty days from September 15, 1936, in which to raise the needed \$60,000 for common capital.

"Reports of the progress of these negotiations will be made to the Board in the future by the examining division."

Mr. Wyatt referred to the action taken by the Board on August 4, 1936, authorizing him to continue negotiations with the attorneys for the liquidating trustees of the Fletcher-American National Bank of Indianapolis, in connection with the claim asserted against the Federal Reserve Bank of Chicago by the liquidating trustees, with a view to ascertaining the basis upon which such attorneys would be willing to settle the claim, and stated that following a discussion of this matter at the Conference of Counsel of the Federal Reserve Banks held in Washington on July 13 and 14, 1936, Mr. Dunn, General Counsel for the Federal Reserve Bank of Chicago, had prepared a memorandum regarding the matter to the board of directors of the Chicago bank which was presented by President Schaller, but that no action had been taken thereon. He said that it was felt that Mr. Dunn favored a settlement but the directors had taken a rather adverse position although there had been some indication that they would consider a settlement if a proposal was made by the liquidating trustees. He stated further that Mr. Dreibelbis had taken up the matter with the attorneys for the liquidating trustees and, while no definite agreement had been reached, they were close to agreeing on a proposal involving between \$75,000 and \$100,000, which could be presented to the directors of the Chicago bank for consideration; and that he would like to have the Board's permission to discuss the matter at the next meeting of the board of directors of the Chicago bank which

9/11/36

-11-

was to be held on September 25. Mr. Wyatt added that he thought that all efforts leading to a settlement would be futile unless the matter could be presented personally to the directors. Mr. Broderick inquired whether Messrs. Wyatt and Dreibelbis could meet with the Chicago directors and present the matter as individuals rather than as representatives of the Board. Mr. Wyatt replied that all negotiations thus far had been conducted as individuals and that it was the intention to continue on that basis.

At the conclusion of a discussion, Mr. Szymczak moved that Messrs. Wyatt and Dreibelbis be authorized to discuss the matter at the next meeting of the board of directors of the Federal Reserve Bank of Chicago.

Carried unanimously.

Consideration was then given to a letter dated September 1, 1936, from Mr. James C. McCorahy, Secretary of The Wilson Chemical Company, Tyrone, Pennsylvania, requesting information with regard to an article written by H. Parker Willis, former Secretary of the Federal Reserve Board, entitled "America Faces Bankruptcy" which appeared in condensed form in the September issue of the Readers' Digest.

After a brief discussion, it was unanimously agreed that, inasmuch as the subject of the article in question was one coming within the jurisdiction of the Treasury Department, the letter should be acknowledged and referred to that department for attention.

Mr. Ransom presented a memorandum dated September 9, 1936, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, with respect to the activities of the so-called Brownlow Committee, the President's committee on administrative management. The

9/11/36

-12-

memorandum stated that a representative of the Committee had recently made use of the Board's library in obtaining information regarding the Board's organization, with particular reference to its legislative history; that Mr. Thomas had talked to the representative and referred her to certain published material on the Banking Act of 1935, and had been advised that other Government departments had made available to the Committee a considerable amount of confidential documents and records; that it was believed that the Board had certain information prepared in connection with the Banking Act of 1935 and in other connections which might be of use to the Committee; and that the question presented was to what extent the Board wished to make such information available.

Mr. Broderick moved that the matter of furnishing information to the Committee's representative be left to the discretion of Mr. Goldenweiser.

Carried unanimously.

There was presented for consideration a letter dated June 4, 1936, from Mr. Young, Vice President of the Federal Reserve Bank of Chicago, with reference to the Board's condition of membership requiring State member banks in Illinois subject thereto to pledge collateral with their trust departments when trust funds are deposited in their own banking departments or are otherwise used in the conduct of their business. There had been attached to the file a memorandum dated August 22, 1936, from Mr. Seitz, Assistant Counsel, stating that Mr. Young's letter was an outgrowth of a suggestion made by former Federal Reserve Agent Stevens that the requirements of the condition be deferred until a

9/11/36

-13-

decision had been reached on an appeal which had been taken from an opinion rendered by one of the Illinois lower courts holding that legislation enacted in July, 1935, specifically authorizing trust companies to pledge collateral in the manner required by the proposed condition was not applicable to State banks, and recommending that, inasmuch as advice had been received that a decision with regard to the appeal probably would not be made before the end of the year 1936, the Board advise Mr. Young that it does not feel that it would be justified in further postponing the enforcement of the requirements of the condition of membership in the State of Illinois. A draft of letter to this effect was submitted with the memorandum. The file on the matter had been circulated among the members of the Board for their information prior to consideration at a meeting.

At the conclusion of a discussion, Mr. Szymczak moved that the recommendation contained in counsel's memorandum be approved and that the draft of letter submitted therewith be forwarded to Mr. Young.

Carried unanimously, the letter to Mr. Young reading as follows:

"This refers to your letter of June 4, 1936, with further reference to the Board's condition of membership requiring State member banks in Illinois subject thereto to pledge collateral with their trust departments when trust funds are deposited in their own banking departments or are otherwise used in the conduct of their business. You will recall that Mr. Stevens suggested that the enforcement of the requirements of this condition of membership be deferred until a decision has been reached on an appeal from an opinion rendered by one of the Illinois lower courts holding that the authorization granted by law to trust companies to pledge collateral to secure trust funds in the manner required by the condition is not applicable to State banks.

9/11/36

-14-

"Your counsel has advised that a decision with regard to the appeal probably will not be made before the end of the year 1936, and that, in view of the importance of the questions involved to the State banking authorities, it is not at all improbable that even a much longer delay in the matter will ensue. As you know, the laws of the State of Illinois do not provide any safeguards for the protection of trust funds when they are deposited by a State bank in its banking department or are otherwise used by it in the conduct of its business, and a State bank may not effect a valid pledge of collateral to secure trust funds. The Board, therefore, as you also know, has ruled that it would not waive compliance with the requirements of the condition of membership under discussion by Illinois State member banks which have accepted the condition and that such State member banks should not deposit trust funds in their own banking departments or otherwise use such funds in the conduct of their business. The Board does not understand that the situation upon which this ruling was predicated has been changed in any respect by the court decision giving rise to the appeal referred to above. Accordingly, if the suggested deferment of the enforcement of the condition of membership is granted, trust funds deposited by an Illinois State member bank in its own banking department or otherwise used by it in the conduct of its business will be without the protection contemplated by the Board's requirements. In other States, where it was not clear that trust funds so deposited or used were otherwise adequately protected, the Board has refused to waive compliance with a condition of membership similar to that involved in the present case.

"In the circumstances, the Board does not feel that it would be justified in further deferring the enforcement of the requirements of the condition of membership in the State of Illinois. You are requested, therefore, in the case of any Illinois State member bank in your district which is subject to the condition and which is not complying with the requirements thereof in the light of the Board's ruling, to advise each such bank that it should take promptly the necessary steps to bring its trust department operations into conformity with such requirements. Please keep the Board advised as to the results obtained in this connection."

Mr. Ransom referred to the action taken by the Board on August 27, 1936, in connection with the application for full fiduciary powers filed by The First National Bank of Christiansburg, Christiansburg,

9/11/36

-15-

Virginia, requesting that the file on the matter, including the draft of letter to the Comptroller of the Currency prepared by the Division of Examinations, be circulated again for the consideration of the members of the Board in the light of his report of his conversation with the Comptroller of the Currency and the discussion of the matter at that meeting, following which it would be considered at a subsequent meeting of the Board. Mr. Ransom reviewed again his conversation with the Comptroller of the Currency which he reported at the meeting on August 27, and the facts which had prompted the Board on August 11 to express themselves as being unanimously in favor of granting to the national bank certain limited trust powers.

After further discussion, Mr. Davis moved that The First National Bank of Christiansburg, Christiansburg, Virginia, be granted authority to act as trustee, executor, administrator, guardian of estates, and committee of estates of lunatics, as recommended by the Board's Division of Examinations.

Carried, Messrs. Broderick and Ransom voting "no".

At this point Messrs. Wyatt, Paulger and Dreibelbis 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 10, 1936, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September

9/11/36

-16-

10, 1936, were approved unanimously.

Telegrams to Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on September 10, 1936, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated September 10, 1936, from Mr. Morrill referring to the temporary appointment of Miss Helen Lavelle as a stenographer in the Office of the Secretary which expires at the close of September 24, 1936, and recommending that Miss Lavelle be employed on a permanent basis, with salary at the rate of \$1,500 per annum, effective as of the date on which she passes satisfactorily the usual physical examination.

Approved unanimously.

Telegram to Mr. Stewart, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Your wire September 9. No change will be made unless in your opinion reclassification of member banks for electoral purposes is desirable, in which case please furnish detailed information with your recommendation."

Approved unanimously.

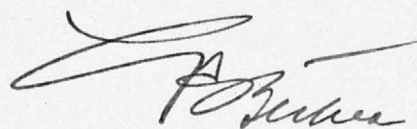
Memorandum dated September 10, 1936, from Mr. Noell, Assistant Secretary, recommending, for the reasons stated in the memorandum, that the Board authorize an additional amount of \$50 in the budget to cover the cost of "Repairs to Equipment - Board Members".

Approved unanimously.

9/11/36

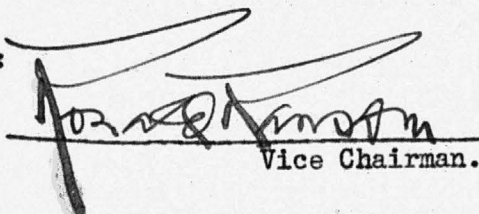
-17-

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.