

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, September 22, 1936, at 11:00 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations

Mr. Ransom presented a letter dated September 17, 1936, from Mr. Owen D. Young, Deputy Chairman of the Federal Reserve Bank of New York, a copy of which had been furnished previously to each member of the Board, reading as follows:

"In your letter of August 20, 1936, you approved the salary of Mr. Sailer as a vice president of the Federal Reserve Bank of New York, as provided by the board of directors of this bank, for the period September 1 to December 31, 1936. To that approval you added the following clause:

'*** 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.'

"This clause, in the opinion of our board, calls for two observations: The first is one of principle. The language of the condition suggests that the Board of Governors has the right under the statute to attach as a condition to salary approval a statement as to when employment shall cease. While this is of no material consequence in Mr. Sailer's case, our board of directors regard the matter of sufficient importance in principle to warrant the expression of a reservation. The second is a question of expediency, or perhaps more correctly one of construction. Our board wishes me to say that while it has no thought of asking for

9/22/36

-2-

"a continuance of salary for Mr. Sailer beyond December 31, 1936, it must at least reserve the right to present its views to the Board of Governors as to what is an appropriate retirement allowance for him. This may take the form of a request for special action in Mr. Sailer's case, or perhaps even better a suggestion for a modification of the general rules relating to retirement which may be considered as of benefit to the System as a whole."

Mr. Szymczak suggested that a reply be prepared to Mr. Young's letter reviewing the developments which resulted in the action in the form set forth in its letter of August 20, 1936, to President Harrison, in regard to the compensation of Mr. Sailer.

Mr. Broderick raised a question as to whether the Board had authority, under its general power to approve the compensation of officers and employees of Federal reserve banks, to refuse to approve the salary of a particular officer, without assuming the burden of proving that the individual was incompetent or otherwise not entitled to the salary which had been fixed by the board of directors of the bank.

Mr. Wyatt stated that the Board's power to approve or disapprove compensation of officers and employees of reserve banks was a very broad authority, the purposes of which were two-fold: (1) to prevent the reserve banks from paying excessive salaries to officers and employees; and (2) to prevent the reserve banks from keeping more people on the payrolls than would be justified. He said that, while the law vested in the directors of each reserve bank the responsibility for the local management of the institution, the provision of law requiring

9/22/36

-3-

that any compensation that may be provided by the boards of directors of the Federal reserve banks for directors, officers or employees shall be subject to the approval of the Board of Governors contemplated that the Board would exercise a discretion as to whether it should approve or disapprove the salary of any officer or employee.

Mr. Ransom pointed out that when Mr. Sailer's case was considered by the Board in February of this year, and a final conclusion was reached the following month, it was his thought that the action taken was well within the scope of the Board's authority under the law. He said that, at the time, the salaries of officers of the New York bank as a group seemed unnecessarily large and that, in view of the reduced earnings of the reserve banks, the elimination of Mr. Sailer's salary appeared to be in accord with the general policy of retrenchment which the Board had initiated.

Mr. Broderick indicated that in his opinion Mr. Young did not have in mind all of the facts underlying the Board's action at the time he wrote his letter of September 17, and that he thought it was doubtful whether the earlier correspondence between the Board and the New York bank had been brought to the attention of the board of directors of the bank. He then suggested that it might be well to look into the question of requiring that all official correspondence addressed to the reserve banks by the Board of Governors regarding matters of policy, and particularly with respect to salaries of officers and employees,

9/22/36

-4-

be brought to the attention of the board of directors of the reserve bank concerned.

After some discussion of Mr. Broderick's suggestion, the Board requested that a circular letter to the Presidents of all Federal reserve banks be drafted along the lines indicated by Mr. Broderick and submitted to the Board for consideration.

Mr. Ransom said that he was inclined to agree with Mr. Szymczak that it would be desirable, in replying to Mr. Young's letter, to review the developments in Mr. Sailer's case. In response to a question by Mr. Morrill, it was indicated that such a review should include the previous history of the Board's position with respect to the advisability of approving compensation for Mr. Sailer.

Mr. Broderick indicated that he favored this disposition of the matter, and suggested that the letter should be courteously frank and indicate clearly that the Board is always glad to have the board of directors of a reserve bank present its views on any matter and to give them careful consideration.

At the conclusion of further discussion, the Board unanimously agreed that the Secretary should draft such a reply to Mr. Young's letter of September 17 for the Board's consideration.

Mr. Morrill called attention to an Executive Order issued by the President under date of September 17, 1936, "Excusing from Duty on Wednesday, September 23, 1936, until 1 P. M., Employees of the Ex-

9/22/36

-5-

Executive Departments, Establishments and Other Agencies of the Federal Government in the District of Columbia, Who Desire to Show Honor to the Veterans of the Civil War upon the Occasion of the Parade of the Grand Army of the Republic", and suggested that the Board might wish to take similar action with respect to its organization.

By unanimous vote, the Board thereupon ordered that all employees of the Board's organization who could be spared be excused from duty on Wednesday, September 23, 1936, until 1:00 p. m.

Mr. Broderick raised a question as to when it would be possible to hold a conference with President Harrison, First Vice President Sproul and Assistant Vice President Knoke of the Federal Reserve Bank of New York regarding the procedure to be followed with respect to relationships and transactions entered into by the New York bank with foreign banks or bankers under the provisions of Section 14(g) of the Federal Reserve Act. A discussion ensued, during which Mr. Ransom stated that Chairman Eccles was not expected to return to the office before Saturday, October 3; that certain other members of the Board would be out of the city during the interim between October 3 and 11; and that it would not be feasible to have a meeting of the full Board to consider the matter prior to the week of October 12. Mr. Ransom added that it would be desirable for Chairman Eccles to have an opportunity to review the action taken by the Board during his absence in connection with the matter, and requested the Secretary to prepare

9/22/36

-6-

a memorandum for Chairman Eccles summarizing the developments in this connection.

The Board agreed unanimously to the suggestion that the conference be held during the week of October 12, 1936, with the understanding that Mr. Ransom would get in touch with President Harrison and agree upon a date, during the week indicated, on which it would be convenient for him, together with Messrs. Sproul and Knoke, to come to Washington for the purpose.

Mr. Broderick reported briefly on his attendance at the convention of the National Association of Supervisors of State Banks held in Detroit September 14 to September 16, 1936. He said that he had not been on the speaker's program but had been called upon and had spoken informally on the subject of "Cooperation". He also said that the Federal Reserve Banks of New York, Boston, Philadelphia, Cleveland, Chicago and St. Louis had representatives at the convention, that there was evidence of good feeling on the part of the State bank supervisors toward the System, and that they regarded the examination divisions of the reserve banks as complementing their own examining staffs.

Mr. Broderick stated that he had, of course, visited the Detroit branch of the Federal Reserve Bank of Chicago during the convention, and that en route to and from Detroit he had visited the Cincinnati and Pittsburgh branches of the Federal Reserve Bank of Cleveland and the Buffalo branch of the Federal Reserve Bank of New York. He added that

9/22/36

-7-

the volume of business handled by the Buffalo branch did not, in his opinion, justify its continuance, although he was inclined to the opposite view with regard to the branches at Detroit, Cincinnati and Pittsburgh.

At this point Messrs. Wyatt and Smead 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 21, 1936, were approved unanimously.

Letter to Mr. C. M. Thompson, Assistant Cashier, The First National Bank, Pueblo, Colorado, reading as follows:

"This refers to your letter of June 26, 1936, addressed to the Comptroller of the Currency, regarding the question whether your bank may classify a deposit in the name of the United States Fidelity & Guaranty Company, collateral for E. L. Westcott, as a savings deposit under the provisions of section 1(e) of Regulation Q. As stated in the Board's letter to you dated August 5, 1936, your letter has been referred by the Comptroller of the Currency to the Board for reply.

"You state that the funds in question were deposited in your bank by E. L. Westcott to the credit of the United States Fidelity & Guaranty Company to secure the company on an appearance bond furnished for Miss Westcott. The quoted portion of the letter from the surety company states that the funds deposited would become the property of the company only upon breach of the bond in connection with which the collateral was given. The surety company also states that upon the discharge of the company's liability on the appearance bond, without loss, and upon payment of any premium due, the funds in the deposit with accumulated interest would be

9/22/36

-8-

"returned to the depositor.

"Under the circumstances stated above, it is the view of the Board that the deposit may be considered one in which the entire beneficial interest is held by an individual and that the deposit may be classified as a savings deposit if it complies with the other requirements of section 1(e) of Regulation Q.

"Of course, if the surety company should hereafter assert any claim to the fund in any capacity other than as a mere holder for the purposes stated above, a different situation would be presented.

"If you should have any further questions regarding this matter or any similar matter, it is believed that you may find it more convenient to communicate with the Federal Reserve Bank of Kansas City."

Approved unanimously.

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

"This refers to your letter dated June 29, 1936, and inclosures, requesting a ruling by the Board upon the question whether a member bank may classify as a savings deposit funds consisting of a cash bond given by an employee to his employer, such funds to be withdrawn from the deposit account only upon the joint signatures of the employer and the employee. A reply to your letter has been delayed pending consideration by the Board of a number of similar questions.

"Section 1 of the California Act Regulating Employees' Bonds (Act approved April 20, 1917, Stats. 1917, p. 151, Chap. 108, as amended,) provides that 'no employer shall demand, exact or accept any cash bond from any employee or applicant for employment unless * * * the said cash received as a bond is deposited in a savings account in a bank authorized to do business in this State, to be drawn out only upon the joint signatures of the said employer and the said employee or applicant for employment, * * *.'

"Section 1½ of the above Act provides that 'any money or property put up by any employee or applicant for employment as a cash bond in any case must not be used for any purpose other than liquidating accounts between the employer and his said employee or return to the said employee or applicant for employment, and shall be held in trust for

9/22/36

-9-

"this purpose and not mingled with the money or property of the employer who receives same, any provision of any contract between the employer and employee or applicant for employment to the contrary notwithstanding."

"It is the view of the Board that deposits of cash bonds made in accordance with the above statutory provisions may be considered deposits in which the entire beneficial interest is held by an individual and that such deposits may be classified by member banks as savings deposits under the definition in section 1(e) of Regulation Q, provided they comply with the other requirements of the section."

Approved unanimously.

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

"This refers to your letter of August 6, 1936, and its inclosures, relating to the application of 'Vollmer Security Company', Lewiston, Idaho, for a voting permit entitling it to vote the stock which it owns or controls of The First National Bank of Lewiston, Lewiston, Idaho.

"On the basis of the information contained therein or obtained from the office of the Comptroller of the Currency, the Board understands that, at the time of the preceding election of directors of The First National Bank of Lewiston, such bank had 750 shares of preferred stock and 1,250 shares of common stock outstanding; that all of the stock was voted at such election of directors; that substantially all of the stock was then owned or controlled by Vollmer Security Company; that such bank subsequently issued an additional 1,000 shares of preferred stock and now has 1,750 shares of preferred stock and 1,250 shares of common stock outstanding; and that Vollmer Security Company now owns or controls less than 50% of the common stock (the exact number of shares does not appear) and none of the preferred stock, all of the latter being owned by the Reconstruction Finance Corporation.

"In view of these facts, it appears that Vollmer Security Company is no longer a holding company affiliate of The First National Bank of Lewiston and that no further consideration need be given to its application for a voting permit. Accordingly, the Board's file is being closed. However, if you

9/22/36

-10-

"have any further information which you believe should be considered in this connection, please advise the Board."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Brownell
Secretary.

Approved:

Donald W. Mason
Vice Chairman.