

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 31, 1937 at 3:30 p. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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 March 30, 1937, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, and Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"This refers to your letter of March 4, 1937, and its inclosures, in reply to the Board's letter of March 2, 1937, transmitting a copy of a letter of January 25, 1937, from

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"The Montana National Bank, Billings, Montana, relating to the requirement that a national bank deposit securities in its trust department to secure trust funds awaiting investment or distribution which are used by the bank in the conduct of its business.

"As you know, section 11(k) of the Federal Reserve Act provides, in part, as follows:

'Funds deposited or held in trust by the bank awaiting investment * * * shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Board of Governors of the Federal Reserve System.'

"Section 9(b) of the Board's Regulation F lists the classes of securities which may be used as collateral security for such funds. It is apparent that Federal Reserve bank cashier's checks do not come within any of such classes of securities and, accordingly, such checks can not properly be used by a national bank as collateral security for trust funds in the absence of an amendment or waiver of the pertinent provisions of Regulation F and the approval of such checks as security pursuant to the provisions of section 11(k). Such action would have general applicability and it would appear that before giving it consideration, the Board should obtain the views of all of the Federal Reserve banks.

"The Board's letter of November 30, 1936, (X-9753), and its inclosures described a procedure followed by the Federal Reserve Bank of San Francisco where it is impracticable for banks to pledge approved securities to secure trust funds. Under such procedure Federal Reserve bank cashier's checks or checks certified by the Federal Reserve bank are held as assets of the trusts. The Board approved the use of this procedure in situations where the Federal Reserve bank felt that the special circumstances justified it and it would seem that the problem of The Montana National Bank might be solved in this manner.

"It may be noted that apparently the bank ordinarily should have no serious difficulty in handling its trust funds in the usual manner, either pledging approved securities with its trust department or depositing the funds in other banks, and a serious problem would arise only when the bank received exceptionally large amounts of such funds. In the latter event, such portions of the funds as the bank could not satisfactorily handle in the usual manner might be handled in accordance with the procedure mentioned above.

"It will be appreciated if you will take this matter up with The Montana National Bank and endeavor to arrive at some satisfactory solution of the bank's problem. If this

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"is impossible, the Board will be glad to have you advise it further concerning your views."

Approved unanimously.

Letter to Mr. Leland Scrogin, Vice President of the First National Bank in Pratt, Pratt, Kansas, reading as follows:

"Reference is made to your letter of March 4, 1937, addressed to Mr. J. C. Noell, Assistant Secretary of the Board of Governors of the Federal Reserve System, returning copy of the Board's letter of February 25, 1937, and list of stocks registered on national securities exchanges as of January 31, 1937.

"You state in your letter that First National Bank in Pratt and other banks in which your associates are interested individually make no loans on stocks or bonds since 'there is a ruling which disqualifies an officer of one bank from being an officer in another bank where either institution makes loans on stocks or bonds.' Apparently you refer to the provisions of section 33 of the Banking Act of 1933 which added section 8A to the Clayton Antitrust Act and which provided as follows:

'That from and after the 1st day of January 1934, no director, officer, or employee of any bank, banking association, or trust company, organized or operating under the laws of the United States shall be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries'.

This section of the law was repealed by section 329 of the Banking Act of 1935 which became effective August 23, 1935; and interlocking relationships involving directors, officers, or employees of member banks of the Federal Reserve System and other banks are now governed by the provisions of section 8 of the Clayton Antitrust Act, as amended, and Regulation L, issued pursuant thereto by the Board of Governors of the Federal Reserve System, effective January 4, 1936. A copy of Regulation L is inclosed for your information. In this connection, it will be noted in schedule 15-A of the report of examination of First National Bank in Pratt made by national bank examiner R. B. North as of the close of business February 1,

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"1937, that the interlocking relationships of Messrs. G. W. Lemon, J. C. Lemon and yourself with the banks listed in schedule 15-A of the report apparently involve no violation of section 8 of the Clayton Antitrust Act, as amended.

"In view of the fact that you apparently failed to take note of the repeal of section 8A of the Clayton Antitrust Act your institution may now or at some time in the future be interested in a copy of the current list of stocks registered on national securities exchanges which is issued from time to time by the Board. If such is the case the Board, upon request, will be glad to supply you with a copy thereof.

"Your comments concerning the various regulations and rulings of the supervisory authorities coming to your attention have been read with interest. It is true that over the years banks have been subjected to an increasing degree of public supervision and regulation. However, this trend has generally followed the course of public opinion as reflected in the legislative enactments of the elected representatives of the people; and regulatory bodies, in the discharge of their functions, act pursuant to the statutory provisions which have been enacted for their direction and guidance.

"Acting pursuant to the requirements of law the Board of Governors of the Federal Reserve System has outstanding at this time twenty regulations, only a few of which, however, may properly be considered as recent regulations, that is, regulations issued under additional responsibilities placed upon it by law subsequent to the early part of 1933. Of course, it is necessary to revise all of the Board's regulations from time to time but such revisions usually do not represent additional regulatory authority so much as a new or different approach to the subject matter covered which is required by amendments to the law or changed conditions.

"The Board approaches the task of revising an existing regulation or drafting a new regulation with extreme care. In the performance of these duties it is concerned not only with the proper discharge of the responsibility placed on it by law; but, conscious of the fundamental changes in the operation of a member bank which may result from a requirement of the regulation, the Board is also concerned that the regulation, when it becomes effective, will be practical and workable from the viewpoint of the member banks.

"Specific reference is made in your letter to Regulations Q and U. The procedure followed in the preparation of one of these regulations is illustrative of the care exercised in preparing all of the Board's regulations having general applicability. In the preparation of Regulation U, which relates to loans by both member and nonmember banks for the purpose of purchasing or carrying listed stocks, the Board

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"and its staff engaged in intensive preliminary work on the problems involved and on tentative drafts of a regulation. Following such preliminary work, a draft of the regulation was forwarded to all of the Federal Reserve banks for their comments and criticisms. The reserve banks were also requested to submit copies to member and nonmember banks, representatives of securities exchanges, and other interested persons and obtain their comments and suggestions. At the same time, copies of the draft were forwarded to the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Secretary of the Treasury, and the President of the American Bankers Association. Helpful suggestions were received from all of these sources, including special committees appointed by Clearing House Associations in various parts of the country, and a special committee of the American Bankers Association. Subsequently, a revised draft was prepared and after careful consideration of this revised draft and the suggestions and comments which had been received, and after certain modifications, the Board adopted Regulation U on March 25, 1936, to become effective May 1, 1936.

"It is not possible, of course, to reconcile all conflicting viewpoints or to adopt all suggestions received with regard to a regulation, but the thorough discussion and the criticisms and suggestions received from many different sources result in regulations which it is believed are, in general, reasonable and workable.

"Regulations, rulings and instructions issued by the Board of Governors of the Federal Reserve System must apply alike to all member banks - - good, bad and indifferent. Accordingly, they must be drafted from the standpoint of their effect on banks which may be unsound, either with respect to assets or policies of management. A well-managed banking institution requires a minimum of regulation in any event, and the primary concern of a supervisory agency is the beneficial results which may be accomplished in ill-managed banks through regulations. In some instances, representatives of well-managed banks have discussed particular regulations with the Board, with the feeling that the provisions were unnecessary, or too restrictive and too stringent. When it was made clear that, from a broad supervisory viewpoint, it was necessary to draft the regulation from the standpoint of the worst rather than the best bank, such objections were withdrawn. No conscientious supervisory authority cares to be in the position of making or enforcing an unreasonable requirement in a particular situation. Some-

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"times a supervisory body may find itself subjected to criticism for what appear to be bureaucratic and unreasonable requirements, when, as a matter of fact, more liberal rulings are not possible under the requirements of the statute or will not correct the evils at which the law is aimed.

"The Board of Governors of the Federal Reserve System welcomes sound suggestions and criticisms of its regulations for only through the continued suggestions and criticisms of the persons affected is it possible to make regulations practical and workable. Accordingly, the Federal Reserve Bank of Kansas City, serving your district, and the Board will appreciate the opportunity to consider any sound criticism which you may offer of any regulation or any provision of any particular regulation issued by the Board. Further, the Federal Reserve Bank of Kansas City will welcome an opportunity to explain Regulations Q and U or any other regulation issued by the Board the provisions of which may not seem clear to you."

Approved unanimously.

Memorandum dated March 29, 1937, from Mr. Morrill stating that Mr. Ezra Winter, the artist who is to paint the map for the Board room in the new building, because of an increase in the size of the map, had asked for an increase of \$280 in the amount of the contract, and that both the Board's architect and Dr. Miller had recommended approval of the increase. The memorandum also stated that the sketch of the map which Mr. Winter had submitted at the last conference was carefully examined by Dr. Miller and he recommends its approval.

Approved unanimously, together with the following letter to Mr. Winter:

"In accordance with the request contained in your letter of March 24 which has been transmitted to me by Mr. Livingston, the Board is approving for payment a voucher in your favor for \$500.00 as the first instalment in accordance with the provisions of the contract for the map in the Board room.

"In view of the enlargement which has been made in the size of the map as a result of the conferences between you, Dr. Cret, Mr. Livingston, Dr. Miller and myself in order

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"to give the map more satisfactory proportions in relation to the room and the fact, as I understand it from the second paragraph of your letter -- confirmed by Mr. Livingston -- that the proposed addition of \$280.00 to the contract price is figured at the same rate as the original contract price in relation to the dimensions specified in the contract, the Board is approving the requested increase of \$280.00 in the total contract price."

Thereupon the meeting adjourned.

Chester Morie

Secretary.

Approved:

W. S. ...

Chairman.