

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, July 7, 1937, at 3:00 p.m.

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

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:

Telegrams to Messrs. Young and McKinney, Presidents of the Federal Reserve Banks of Boston and Dallas, respectively, and to Messrs. Austin and Thomas, Chairmen of the Federal Reserve Banks of Philadelphia and Kansas City, respectively, 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. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"In accordance with the request contained in your letter of July 3, the Board approves the appointment of Henry B. Tesmer as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise of the effective date."

Approved unanimously.

Letter to the board of directors of the "Rushville State Bank", Rushville, Illinois, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for

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membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding a legend reading substantially as follows:

'Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Deferred Certificates issued by the bank to certain depositors who waived the payment of a part of their deposits in 1933, pursuant to waiver agreements, copies of which are on file with the Rushville State Bank, must be paid.'

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 5, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Deferred Certificates to the rights of stockholders.)"

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Rushville State Bank', Rushville, Illinois, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Auditor of Public Accounts for the State of Illinois for his information.

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"It has been noted from the presentation memorandum accompanying the application that the institution will be requested to reduce the balance which it was carrying with a nonmember bank to an amount within the limitations fixed by section 19 of the Federal Reserve Act."

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Receipt is acknowledged of your letter of June 23, 1937, and the inclosed letter from Mr. Cutler, president of Safe Deposit and Trust Company of Baltimore, in which he requests that an amendment be made to the Board's Regulation L, dealing with interlocking directorates under the Clayton Act.

"The immediate purpose of Mr. Cutler's request is to obtain an amendment which will permit Messrs. Davis and Randall to serve at the same time as directors of the trust company and of The First National Bank of Baltimore, but, as Mr. Cutler points out, he seeks an amendment which is general in scope, since the Board is no longer authorized to issue individual permits.

"Before the proposed amendment is considered finally by the Board, it will be appreciated if you will suggest to Mr. Cutler that he give consideration to the matters discussed below in order that he may have an opportunity of meeting certain objections which may be raised to the amendment in the form in which he has suggested it.

"He suggests an amendment which would permit a director of a member bank to be a director of not more than one trust company which is not a member bank, provided the trust company is engaged 'primarily' in the business of acting as trustee, executor or administrator, agent or other fiduciary, and provided it 'does not generally accept deposits subject to check'. As you know, one of the primary purposes of the revision of section 8 of the Clayton Act which was made by the Banking Act of 1935 (a purpose which the Board attempted to follow in the revision of its Regulation L) was to lay down a set of clear and easily applied rules which would permit the director or bank involved to determine for itself whether or not the relationship was prohibited, without the necessity of having to appeal to the judgment and discretion of a board in Washington for its determination. Such a determination, if based upon an indefinite standard and made by a board located sometimes at a great distance from the

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"banks involved, necessarily could not produce entirely uniform results even though a great deal of time and energy were expended in an effort to give proper consideration to each individual case.

"The amendment which Mr. Cutler proposes refers to a trust company which is engaged 'primarily' in the business of acting as fiduciary and which 'does not generally accept deposits subject to check'. It seems possible that incorporating such a standard in the Board's regulation might produce a number of borderline cases in which the Board would be required, first, to lay down some general definition of the word 'primarily' and then attempt to apply that definition to the facts of the particular case as ascertained through correspondence, investigation by the office of the Federal Reserve agent, study of examination reports, and possibly hearings of the interested parties by the Board in Washington. The same would be true of the question whether the trust company 'generally' accepted deposits subject to check.

"Although Mr. Cutler in his letter discusses the question of substantial competition between the institutions involved, and although it may be assumed that this was the basic question which Congress had in mind when section 8 was amended to the form in which it now stands, it is noteworthy that the word 'competition' does not now appear in section 8. This fact serves to emphasize what has been said above regarding the purpose of the amendment to section 8; namely, to lay down definite and easily applied rules. It is even possible that the fundamental purpose of preventing interlocking relationships between competing institutions has been slighted to a small degree in an effort to achieve this definiteness, and Mr. Cutler refers in his letter to the exception applicable to banks not located in the same city, which of course may apply to banks between which there is a degree of competition, and also to mutual savings banks and to Morris Plan banks and similar institutions which are excepted by the Board's Regulation L.

"If Mr. Cutler could suggest a revision of his proposed amendment which would establish a clear-cut distinction and would not have a tendency to produce borderline cases, it would not be open to the objections discussed above, which may possibly be deemed important by the Board in deciding whether or not the amendment should be incorporated in Regulation L."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Moriel
Secretary.

Approved:

W. S. Coates
Chairman.