

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, August 24, 1937, at 11:00 a.m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel

ALSO PRESENT: Mr. J. J. Thomas, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Kansas City

Mr. Thomas stated that at the meeting of the board of directors of the Federal Reserve Bank of Kansas City on August 5, 1937, there were presented the letters addressed by the Board of Governors to him under date of July 14, as Chairman of the board of directors of the bank, and under date of July 29, to President Hamilton, with respect to the provisions of the by-laws of the bank regarding the composition and meetings of the administrative and executive committees of the bank, and that the board of directors had requested him to visit Washington for the purpose of discussing the matter with the Board and reconciling the views of the board of directors and the views of the Board of Governors as expressed in its letters to Messrs. Thomas and Hamilton.

Mr. Thomas referred to the organization of the executive committee prior to the creation of the administrative committee in January and stated that provision for daily meetings of the administrative committee, which were in lieu of daily meetings of the executive committee, was made in order to afford the directors an opportunity to be at the

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bank a sufficient length of time each year to become thoroughly acquainted with its operations. He also said that the directors felt that they could not become sufficiently familiar with the work of the bank by attendance at the regular meetings of the board of directors to enable them to discharge the responsibility placed upon them by the Federal Reserve Act to supervise and control the affairs of the bank. He also referred to the extended territory covered by the Tenth Federal Reserve District and to the practice of selecting directors representative of different parts of the district which resulted in some directors traveling considerable distances to attend meetings with accompanying greater traveling expenses.

Mr. Thomas read, and filed with the Board, a digest of the proceedings of meetings of the administrative committee of the Kansas City bank from August 4 to 17, 1937, as evidencing a need for daily meetings of the committee. Mr. Ransom stated that it appeared that practically all of the actions listed in the digest could have been handled by the officers of the bank and presented for ratification at the regular meetings of the board of directors. Mr. Thomas said that the board of directors of every large banking institution has a committee which meets at the bank almost daily to handle important matters calling for attention and that the directors of the Federal Reserve Bank of Kansas City felt that their responsibility called for similar meetings at the reserve bank. The members of the Board pointed out, however, that the daily meetings of committees of commercial banks

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are usually held for the purpose of passing on applications for credit and not for the purpose of operating the bank, that the Federal reserve bank was making practically no loans at the present time, and that, therefore, there was no necessity for such frequent meetings of the administrative committee.

Mr. Ransom referred to the position taken by the Board of Governors that the chairman of the board of directors of a Federal reserve bank and, in his absence, the Deputy Chairman, and, in the absence of both, the third Class C director should serve as chairman of the executive committee and stated that the organization of the executive committee and administrative committee, which exercises the duties of the executive committee at the Kansas City bank, did not provide for the Class C directors serving as chairman of either committee except in rotation with the other directors and that in view of the public character of the Class C representation on the board of directors of the Federal reserve banks, meetings of the committees should not be held without a Class C director being present. Mr. Thomas agreed that the chairman of the board of directors should be chairman of the committees but stated that the changes which were made in the by-laws in January were made in his absence and inasmuch as they affected his relation to the committees he felt he could not with propriety question the changes.

There ensued a discussion of the matters referred to above as well as of the amount expended annually by the Kansas City bank for fees and expenses of directors.

At the conclusion of the discussion, Mr. Thomas asked what

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suggestions the Board had to make with respect to a solution of the matter.

Mr. Ransom stated that the Board felt that the holding of frequent meetings of the board of directors when there was no apparent justification therefor and the continuation of an arrangement under which a Class C director was not present at meetings of the executive and administrative committees were regarded by the Board as (1) inefficient organization resulting in needless expense, (2) inadequate representation of the public interest because of non-attendance by Class C directors at meetings of the committees, and (3) lack of understanding on the part of the directors that their responsibility is to determine the policies of the bank and to leave the daily operating details in the hands of the bank's officers.

Mr. Ransom also said that Mr. Thomas should return to Kansas City and discuss the entire matter with the directors in the light of the Board's letters of July 14 and 29, 1937, and in the light of the points considered at this meeting, following which the board of directors should take action to correct the unsatisfactory elements of the situation.

At this point Messrs. Thurston, Wyatt and Thomas 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:

Memorandum dated August 24, 1937, from Mr. Bethea, Assistant

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Secretary, recommending the employment of William H. Malone, Philip D. Faber and James H. Macklin as porters in the new building, each with salary at the rate of \$1,080 per annum, effective as soon as their services may be required after having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to "The First National Bank of Kings Mountain", Kings Mountain, North Carolina, reading as follows:

"The Board of Governors of the Federal Reserve System has given further consideration to your application for permission to exercise limited fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee under a certain deed of trust to secure debt executed by Palmetto Yarn Mills, Inc. and further described as a trust accepted by you on July 12, 1937, the exercise of such right to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, together with the following letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond:

"Reference is made to your letter of August 6, 1937, and inclosures, in regard to the application of 'The First National Bank of Kings Mountain', Kings Mountain, North Carolina, for permission to act as trustee under deeds of trust to secure debt, which was disapproved by the Board on July 30, 1937.

"It is understood that the bank, acting on the assumption that its application would be approved, accepted appointment as trustee under a deed of trust given by the Palmetto Yarn Mills, Inc. to secure an issue of bonds, and asks that

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"the Board reconsider the application and permit it to act as trustee in this one instance. The Board has given further consideration to the matter, and in view of all the circumstances and since the bank apparently has acted in good faith, has granted it permission to act as trustee under such deed of trust. A copy of the letter to the bank advising of the Board's action is inclosed herewith for your files.

"The grant of this restricted power does not represent any change in the Board's views as expressed in its letter to you of July 30, 1937, and is not to be regarded as establishing a precedent for any similar case which may arise in the future. Should the bank at some later date desire to acquire any other trust business it will, of course, be necessary for it to submit a new application for trust powers to the Board and be granted additional authority before accepting any such business."

Letter to the representative members of the Federal Open Market Committee, reading as follows:

"As you know, the last paragraph of section 10 of the Federal Reserve Act, as amended, provides that the Board of Governors shall keep a record of actions taken by the Federal Open Market Committee upon questions of policy relating to open market operations, and that a copy of the record shall be included by the Board in its annual report to Congress.

"In order to expedite the publication of the annual report for the year 1937, there have been prepared drafts of entries for the record covering actions taken by the Federal Open Market Committee at its meetings on January 26, March 15, April 4, May 5 and June 9, 1937. Copies of these drafts are attached. As was the case with the open market policy record for the year 1936, entries relating to certain actions, such as organization of the Federal Open Market Committee, readjustments of participations of Federal reserve banks in the System account, and authority to the executive committee to permit fluctuations in the System account between statement dates, have been omitted from the record for the reason that they are not regarded as matters of the kind which it was intended to include in the record or are of such relative unimportance as to justify their omission. The drafts of entries have been prepared in substantially the same form as the entries contained in the record for the year 1936.

"In order that the record may be placed in final form

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"as promptly as possible, it will be appreciated if you will review the drafts and advise not later than September 13 whether you have any comments or suggestions to make with respect thereto.

"A letter identical with this is being sent to the other representative members of the Federal Open Market Committee."

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Presidents' Conference, reading as follows:

"As you know the Presidents' Conference at its meeting on November 18, 1936, voted to accept the report and approve the recommendation of the Standing Committee on Collections that the absorption of postage on direct sendings be discontinued by every Federal reserve bank in the interest of uniformity.

"The Board recently made inquiry of the Federal Reserve Bank of Kansas City as to the present situation at that bank with respect to the absorption of postage on cash letters forwarded by member banks direct to other Federal reserve banks, and a copy of the reply of the Kansas City bank is attached hereto. It is suggested that this operating problem be again referred to the Standing Committee on Collections for consideration."

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

"Reference is made to your letter of August 14, 1937, in regard to the inquiry contained in the Board's letter of June 16, 1937, as to the present situation at your bank with respect to the absorption of postage on cash letters forwarded by member banks direct to other Federal reserve banks.

"The Board has suggested to President Harrison, as Chairman of the Presidents' Conference, that this operating problem be again referred to the Standing Committee on Collections for consideration."

There was submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase of

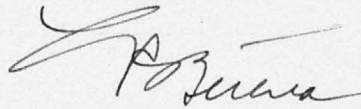
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chairs and steel pitchers, and the cleaning, scouring, repairing and relaying, including cutting and binding for standpipes, of one carpet, as listed in purchase orders Nos. 1964, 1965, 1969 and 1970, at a total cost of \$109.91.

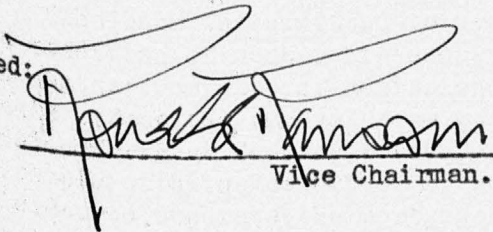
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.