

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 25, 1937, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
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 October 23, 1937, were approved unanimously.

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated October 22, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated October 19 from Mr. Preston, First Vice President of the Federal Reserve Bank of Chicago, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for the creation

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of the new position of "Assistant Building Superintendent" in the Building Office Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to Mr. Lassiter, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"The Board of Governors of the Federal Reserve System decided some time ago that surveys should be made of the Bank Examination and Auditing Departments at all of the Federal Reserve Banks. There is attached a copy of a report of the survey of the Auditing Department of the Federal Reserve Bank of Richmond recently conducted by the Board's Examiners Jones and Wilkes. An additional copy of the report is inclosed for President Leach.

"While the survey indicates that the auditing function at the Federal Reserve Bank of Richmond in general is being performed in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington in November 1936, the conclusions set forth by the examiners indicate a number of matters which merit consideration.

"It will be appreciated if you and any of your directors whom you may designate and President Leach will review this report of survey and give the Board the benefit of your reactions to the matters referred to above and any other statements concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve Banks. As the inclosed report refers frequently to the Auditors' recommendations and also contains other information of a confidential nature concerning the activities of the Auditing Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted

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"to, or discussed with, your directors and such of the bank's officers as you and President Leach deem advisable."

Approved unanimously.

Letter to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"There is attached a copy of a report of the survey of the Bank Examinations Department of the Federal Reserve Bank of Dallas, recently conducted by Mr. C. E. Cagle of the Board's Division of Examinations.

"It will be appreciated if you will review the attached report of the survey and give the Board the benefit of your reactions to any of the statements or conclusions concerning which you would like to express your views.

"Although the report should be regarded as confidential, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, such of the bank's senior officers and directors as you deem advisable."

Approved unanimously.

Letter to Mr. Clark, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"On page 20 of the report of examination of the Trust Company of Georgia, Atlanta, Georgia, as of June 21, 1937, reference is made to a trust account, numbered 409, which represents assets of the bank. The account is referred to as an insurance reserve and it was stated that the bank makes monthly payments into the account and that when the account reaches a certain determined amount it will be used in lieu of fidelity bonds of officers and employees.

"The net assets of the trust were reported to be \$59,505.25, but the report of examination does not show a list of the investments held in the account. A review of the reports of examinations made in 1934, 1935, and 1936, however, indicates that during those years corporate stocks had been purchased as investments for the trust, which would appear to be in violation of section 5136 U.S. R.S., inasmuch as the securities held in the trust account are reported to be assets of the bank. It is suggested,

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"therefore, that you discuss the matter with the management of the trust company in order that any violations of section 5136 in the handling of the account may be corrected and future violations avoided."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on October 8, 1937, and reading as follows:

"From time to time in the past the Board of Governors has declined to issue rulings or pass upon questions submitted upon the basis of abstract inquiries or hypothetical cases, but it has not followed a uniform practice in this regard.

"The issuance of rulings upon the basis of abstract or hypothetical questions is in the Board's opinion an undesirable practice which is fraught with the possibility of misunderstanding or confusion. When an abstract question is considered it is not possible to visualize all of the different concrete situations which may arise within the scope of any answer which may be given. Consequently, it is difficult to limit the answer in such a way that it may not appear to apply to situations which were not in mind in the preparation of the answer and with respect to which the answer given might be inapplicable. Moreover, in order that any question may have thorough consideration it is, of course, necessary that all of the material facts which affect it should be known.

"With these considerations in mind, the Board has decided that it will not issue rulings on abstract or hypothetical questions but only when a full and definite statement of the facts of an actual case is before the Board. An exception to this policy may be made in individual cases, however, when the question presented is one which is almost certain to arise in an actual transaction and a full explanation of the matter is presented to the Board, including the reasons why it is contemplated that such a question will arise.

"When a Federal Reserve bank finds it desirable to submit to the Board a question which has arisen in its operations or has been submitted to it either by a member bank or some other person, counsel for the Reserve bank should

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"either prepare or review the statement of the question and the facts to be submitted to the Board with a view to a full and adequate presentation of the case, and he should include an expression of his views with regard to the question presented.

"It is expected, however, that Federal Reserve banks will continue the practice now followed of disposing of questions presented to them in so far as possible on the basis of previous rulings of the Board, and that they will submit questions to the Board for consideration only when they have specific requests to do so or when after full consideration they feel that the questions are of such a nature or of such importance that it is advisable that the Board be asked to pass upon them.

"It is believed that the policy above described will be more satisfactory than the practice which has prevailed heretofore and will entail less possibility of misunderstanding or confusion as to the scope or meaning of rulings made by the Board. The cooperation of the Federal Reserve banks in carrying out this policy will be appreciated by the Board."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill  
Secretary.

Approved:

W. S. Steeles  
Chairman.