

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 29, 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 28, 1937, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Taylor, Secretary pro tem of the Federal Reserve Bank of Cleveland, and Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the New York and Kansas City banks on October 28, 1937, and by the Philadelphia and Cleveland banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated October 26, 1937, from Mr. Morrill recommending that Miss Helen Lavelle, stenographer, who has been assisting in

10/29/37

-2-

personnel and voucher work, be assigned full time to the personnel section, with no change in her present salary at the rate of \$1,500 per annum; that Mr. Frank H. Grimes, Jr., assistant index clerk, be appointed assistant voucher clerk, with salary at the rate of \$2,000 per annum; that Mr. Bertram C. Dedman, page, be appointed assistant index clerk, with no change in his present salary at the rate of \$1,080 per annum, all effective November 1, 1937; and that Mr. William S. Fleming, III, be appointed as a page in the Office of the Secretary, with salary at the rate of \$1,080 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated October 27, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mr. George P. Hitchings, an intern at the National Institute of Public Affairs, be appointed on a temporary basis for a period of seven months as an economic assistant in the Division, with salary at the rate of \$50.00 per month, effective as of the date upon which he enters upon the performance of his duties.

Approved unanimously.

Letter to Mr. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Referring to your October 18 letter, the Board of Governors approves the action of the board of directors of your

10/29/37

-3-

"bank on Friday, October 15, 1937, in deciding to make a supplemental contribution to the Retirement Fund in an amount sufficient to provide Mr. David Finlaw, head of the mutilated currency division in the Currency Department of your bank, with a retirement allowance of \$100 per month.

"We have been advised by the Retirement Office that the necessary supplemental contribution for this purpose will be approximately \$5,100 for retirement of Mr. Finlaw on January 1, 1938."

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of October 25, the Board approves the appointments as examiners for the Federal Reserve Bank of Chicago of Ernest H. Anderson, Wilbur D. Esser and Hugh J. Helmer, who are now serving as assistant examiners.

"As you know, the original appointment in November 1933 of Mr. Esser as assistant examiner was approved by the Board with the understanding that he would continue systematic reductions in his indebtedness to a national bank, which indebtedness at that time amounted to approximately \$2,000 but which, according to reports on Form B-208, has since been materially reduced. If there is an unpaid balance on the indebtedness at this time, the approval by the Board of Mr. Esser's appointment to the position of examiner is likewise with the understanding that such balance is being reduced systematically and that final liquidation of the remaining balance will be effected within a reasonable time."

Approved unanimously.

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

"The Board approves the changes in the personnel classification plan of the Federal Reserve Bank of San Francisco and its branches requested in your letter of October 7, 1937, as indicated by the revised Form A pages inclosed therewith.

"In regard to Page 55a of the Los Angeles branch plan covering the position of Federal Reserve Agent's Representative, it is felt that this page should be allowed to remain

10/29/37

-4-

"in the branch plan even though the employee who has been given the assignment is carried on the payroll of the Head Office. It is requested, however, that a new page 55a be furnished the Board on which the words 'Work performed by a Federal Reserve Examiner stationed at the Branch but carried on the head office payroll' be substituted for the maximum salary of \$6,000 shown on the Form A page inclosed with your October 7 letter. The employees' salary list of the Los Angeles branch to be submitted to the Board as of January 1, 1938, need not include Mr. Swengel, as Federal Reserve Agent's Representative, since the employees' salary list of the Head Office will include Mr. Swengel classified as an examiner. A note indicating that Mr. Swengel is also the Federal Reserve Agent's Representative at the Los Angeles branch should be included in the Head Office salary list."

Approved unanimously.

Letter to Mr. Stewart, Chairman of the Federal Reserve Bank of San Francisco, 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 San Francisco recently conducted by the Board's Examiners Jones and Cagle. An additional copy of the report is inclosed for President Day.

"While the survey indicates that the auditing function at the Federal Reserve Bank of San Francisco 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 Day 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

10/29/37

-5-

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

Approved unanimously.

Letter to Mr. Martin, President of the Federal Reserve Bank of St. Louis, reading as follows:

"Inclosed herewith are copies of letters of August 26, and September 15, 1937, from Mr. William W. Crawford, Louisville, Kentucky, relating to the application of subsections (b) and (c) of section 5144 of the Revised Statutes of the United States to 'Trustees Under Trust Agreement With Reference to Stock of The First National Bank of Louisville, Ky. and Other Corporations, Dated July 1, 1925' (hereinafter called the 'Trust'), a holding company affiliate which holds a general voting permit. Also inclosed are copies of the Board's letter of August 31, 1937, to Crawford, Middleton, Milner & Seelbach and its letter of this date to Mr. Crawford. It will be appreciated if you will communicate with Mr. Crawford, furnishing him with such advice as you may deem proper in the premises. For your information, the Board's views concerning the inquiry are set forth below.

"You will note that Mr. Crawford states that, pursuant to the Banking Act of 1935, the so-called double liability of shareholders of The First National Bank of Louisville has been terminated and suggests that, by reason of such fact, subsections (b) and (c) of section 5144 are not applicable to the Trust. No reference is made to the stocks which the Trust owns or controls of other banks.

"As a condition upon which all voting permits shall be granted, subsection (b) prescribes certain requirements relating to readily marketable assets, other than bank stocks, to be possessed or acquired by holding company affiliates.

10/29/37

-6-

"As an exception to subsection (b), subsection (c) prescribes different requirements for any holding company affiliate the shareholders or members of which shall be individually and severally liable in proportion to the number of shares of such holding company affiliate held by them respectively, in addition to amounts invested therein, for all statutory liability imposed on such holding company affiliate by reason of its control of shares of stock of banks. The amount of readily marketable assets required under either subsection is dependent upon the amount of bank stocks controlled by the holding company affiliate.

"Under subsections (b) and (c), as originally enacted in 1933, it quite clearly was immaterial whether bank stocks controlled by a holding company affiliate carried double liability and this fact was recognized by the Banking Act of 1935 which amended subsection (c) by adding the following:

' \* \* \* and the provisions of this subsection, instead of subsection (b), shall apply to all holding company affiliates with respect to any shares of bank stock owned or controlled by them as to which there is no statutory liability imposed upon the holders of such bank stock.'

By this amendment, substituting the requirements of subsection (c) for those of subsection (b) to the extent that a holding company affiliate otherwise subject to the requirements of subsection (b) controls bank stocks which do not carry double liability, Congress specifically confirmed its intention to require holding company affiliates to comply with certain requirements concerning readily marketable assets although the bank stocks controlled by them do not carry double liability. It is noteworthy that this amendment was a part of the same Act which provided for the termination of double liability on national bank stock issued prior to June 16, 1933.

"In view of the foregoing, the Board is of the opinion that, with respect to the stock of The First National Bank of Louisville which the Trust controls, the law requires the Trust to comply with the requirements of subsection (c) concerning readily marketable assets. This is likewise true with respect to any other bank stocks controlled by the Trust which do not carry double liability. Since it appears unlikely that any of the bank stocks controlled by the Trust carry double liability, the Board has not considered the question whether, if any such bank stocks carry double liability, the requirements of subsection (b), or

10/29/37

-7-

"those of subsection (c), would be applicable with respect to such stocks. This question of course would turn upon the effect of the provisions of the trust agreement, one of which Mr. Crawford quotes, relating to the liability of the holders of the trustee's certificates.

"Mr. Crawford urges that there is no reason to require the holding company affiliate to retain any part of its assets in any particular form where the bank stocks controlled by a holding company affiliate do not carry double liability. This is a question for Congress, rather than the Board, to decide. However, it may be suggested that the ability or inability of holding company affiliates to assist their subsidiary banks in time of need, regardless of legal requirements, may materially affect the strength of the banking structure."

Approved unanimously.

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

"Re your wire October 21 and letter October 18 re Regulation T. It is understood that question is whether, if a customer substitutes exempted securities for a portion of the registered nonexempted securities in a restricted account, the broker may treat the exempted securities as having a maximum loan value not greater than they would have if they were registered nonexempted securities, and at some subsequent period when the account is still restricted may, without demanding additional margin, permit the exempted securities to be replaced by registered nonexempted securities of equal market value.

"Section 2(h) of Regulation defines 'maximum loan value' of a security as maximum amount of credit which may be extended on the security in conformity with section 3. Under section 3(e) this maximum for exempted securities in present case would be not more than their current market value. Although broker may fix lower loan values for his own purposes this would not affect 'maximum loan value' for purposes of the regulation. Accordingly, replacement of exempted securities with registered nonexempted securities of equal market value would increase the excess of the adjusted debit balance of the restricted account over the maximum loan value of the securities in the account and could not

10/29/37

-8-

"be permitted unless broker demanded additional margin."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of October 18, 1937, regarding Regulation U.

"It is understood that a bank made a loan to a brokerage firm pursuant to Regulation U and that subsequently, when the market value of the collateral declined below that which the bank customarily requires to be maintained for its own protection, the bank issued a demand for margin, although such margin was not required by the regulation. Since the brokerage firm received the margin call on Saturday and it was customary with the firm to eliminate the routine operations incident to entering vaults to obtain securities on Saturdays when deliveries and clearances of securities are not usually effected, the firm proposed that it be permitted to deposit a certified check on Saturday in temporary satisfaction of the demand for margin, and that on Monday it be permitted to replace the certified check with stocks.

"The certified check would be made for an amount equal to the current market value of the securities to be deposited rather than the maximum loan value of such securities, since a certified check limited to the maximum loan value of the securities might not afford the bank as much protection as the securities. The question presented is whether this procedure may be followed.

"As indicated in the Board's letters S-26 and S-32 of August 5 and September 3, 1937, the withdrawal of a certified check against the deposit of an equal market value of stocks ordinarily would not be permissible when the amount of the loan exceeds the maximum loan value of the collateral, since the substitution would reduce the maximum loan value of the collateral and thus increase the deficiency. It appears in the present case, however, that margin would be deposited to satisfy the bank's maintenance requirements rather than any requirement of Regulation U, that the entire transaction would be completed within what amounts to only a comparatively few business hours, that the procedure would be followed in entire good faith and not for the purpose of evading the regulation, and that the net effect of the pro-

10/29/37

-9-

cedure, which would facilitate the usual operations of the brokerage firm, would be the same as if the securities had originally been deposited on Saturday or the margin call had not been met until Monday.

"In the circumstances, the Board is of the opinion that the substitution of the securities for the certified check need not be separated from the other portions of the transaction and that the entire transaction may be considered according to its net results and be treated for the purposes of the regulation as if the securities had been deposited on Saturday or the margin call had not been met until Monday. The Board believes the transaction would be permissible on this basis although, of course, an entirely different situation might be presented if any of the circumstances were altered.

"In view of the discussion above, it is believed that it is not necessary at this time to express any opinion as to the other considerations referred to in your letter."

Approved unanimously.

Letter to Mr. Sam H. Hoefler, President, The Bankers Association of Lafayette-Ray Counties, Missouri, Higginsville, Missouri, prepared in accordance with the action taken at the meeting of the Board on October 22, 1937, and reading as follows:

"Upon receipt of the petitions of banks in thirteen counties in Missouri requesting that such counties be transferred from the jurisdiction of the Eighth Federal Reserve District to that of the Tenth Federal Reserve District, which were forwarded to the Board with your letter of July 16, 1937, the Board forwarded copies of your letter and of the accompanying petitions to the Presidents of the Federal Reserve Banks of Kansas City and St. Louis, with the request that the petitions be brought to the attention of the directors and officers of their respective banks and that the Board be furnished with a statement of their views with respect to the merits of the proposal.

"After giving careful consideration to the petitions and reviewing all of the information submitted with respect to the proposed transfer, including that obtained from the Federal Reserve banks of Kansas City and St. Louis, the Board has concluded that it would not be warranted in

10/29/37

-10-

"transferring the thirteen counties from which petitions were received from the jurisdiction of the Eighth Federal Reserve District to that of the Tenth Federal Reserve District. It will be appreciated if you will advise the petitioning banks of the Board's decision in this matter."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"It appears that since the Reconstruction Finance Corporation, in accordance with its program, may not grant any further commitments to make industrial advances and may not make any more industrial advances, except under commitments heretofore granted, the Federal Reserve banks may receive a much larger number of requests for industrial advances or commitments to make such advances than has been the case in the recent past. The Board hopes that sympathetic consideration will be given to such applications as are received and that advances will be made where the banks can consistently do so under the provisions of the law and the Board's regulations.

"Mr. Szymczak has already talked with an official of your bank over the telephone and acquainted him with the Board's position in this matter; he has also been in touch with Washington officials of the Reconstruction Finance Corporation and he requested the representative of your bank with whom he talked to get in touch with the local Reconstruction Finance Corporation agency with a view of working out a procedure by which all worthy applicants will be referred to the Federal Reserve bank.

"For obvious reasons the Board does not think it desirable at this time to conduct a campaign on this subject, but it hopes that particular pains will be taken to guard against the public getting the impression that the Federal Reserve System has also discontinued making industrial advances. In this connection you may think it desirable to talk with representative bankers in your district from time to time with respect to the facilities in this field which the Federal Reserve banks have to offer."

Approved unanimously.

Letter to Mr. Evans, Vice President of the Federal Reserve Bank

10/29/37

-11-

of Dallas, reading as follows:

"This refers to your letter of October 18, 1937 requesting an opinion upon the question whether State member banks in Texas may lawfully purchase for their own account shares of stock of Federal Savings and Loan Associations insured by the Federal Savings and Loan Insurance Corporation. You state that such inquiries have been made by a number of State member banks because of the recent enactment of a Texas statute authorizing State banks to buy and sell shares insured by the Federal Savings and Loan Insurance Corporation.

"In view of the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act which make it unlawful for a State member bank to purchase for its own account shares of stock of any corporation, there appears to be no reason to differ from the opinion of your officers that no State member bank may purchase shares of stock of Federal Savings and Loan Associations. It is believed that the exemptions stated in section 5136 do not cover shares of stock of Federal Savings and Loan Associations and that the provisions of the Texas statute can not operate to exempt State member banks from the provisions of the Federal statute."

Approved unanimously.

Memorandum dated October 12, 1937, from Mr. Smead, Chief of the Division of Bank Operations, stating that an informal request had been received from Mr. Fred L. Garlock, Senior Agricultural Economist in the Bureau of Agricultural Economics, for certain data showing the extent to which member banks in Wisconsin restricted or deferred payment of deposits, obtained waivers from depositors, or employed measures for rehabilitating their capital structures during the period 1930-1933. The memorandum recommended, for the reasons stated therein, that the Board authorize Mr. Garlock to compile the desired data covering State member banks from examination reports on file at the Board's offices, provided that arrangements were made to compile similar in-

10/29/37

-12-

formation at the office of the Comptroller of the Currency with respect to national banks, and that, if the Comptroller's office does not find it practicable to have the desired compilation covering national banks made in Washington but is willing that the Federal Reserve Banks of Chicago and Minneapolis compile the data from copies of examination reports on file there, the Board authorize Mr. Smead to request the two Federal reserve banks to make the compilations covering both national and State member banks in Wisconsin.

Approved unanimously.

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

"Receipt is acknowledged of your letter of October 27 stating that at a recent meeting of the Conference of Presidents you were requested to appoint representatives from the Chicago, Kansas City, San Francisco and New York Federal Reserve Banks, and such member of the staff of the Board as the Board might select, to constitute a subcommittee of the Leased Wire Committee, and requesting the Board's advice as to the person whom it wishes to represent it on such subcommittee.

"It is understood that the function of such subcommittee is to make such recommendations to the Leased Wire Committee relative to the revision of the Leased Wire Code Book and to any other matters of policy or practice in connection with the operations of the Leased Wire System as it deems advisable.

"In response to your inquiry, the Board would be glad to have Mr. S. R. Carpenter, Assistant Secretary of the Board, serve as its representative on such subcommittee."

Approved unanimously.

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

10/29/37

-13-

paints, aluminum trays, and cups for feet of desks and tables, and the recording of President Roosevelt's address at the ceremonies in connection with the official opening of the Board's building on October 20, 1937, as listed in purchase orders Numbered 2375, 2383, 2384, and 2402, at a total cost of \$111.17.

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Morie  
Secretary.

Approved:

W. Steeles  
Chairman.