

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 10, 1937, at 10:40 a.m.

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

Mr. Morrill, Secretary  
 Mr. Bethea, Assistant Secretary  
 Mr. Carpenter, Assistant Secretary  
 Mr. Clayton, Assistant to the Chairman  
 Mr. Thurston, Special Assistant to the  
 Chairman  
 Mr. Paulger, Chief of the Division of  
 Examinations  
 Mr. Smead, Chief of the Division of Bank  
 Operations  
 Mr. Dreibelbis, Assistant General Counsel  
 Mr. Leonard, Assistant Chief of the  
 Division of Examinations

There was presented a draft of a letter to President Hamilton of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to Mr. Helm's letter of November 19 in reply to the Board's letter of November 17, advising the Board with respect to the Kansas City Citizens Protective Council, Inc. and the reasons for contributions thereto by the Federal Reserve Bank of Kansas City.

"It is stated in Mr. Helm's letter that this organization is sponsored by the leading real estate, business and professional men of the city, primarily for law enforcement and the discouragement of lawlessness of every kind; that the organization is fully in accord with the purposes of the National Industrial Recovery Act; that its members subscribe to the principles of collective bargaining; that it takes no part in labor disputes as between employer and employee, but insists that such disputes be handled in an orderly and lawful manner without jeopardy to the lives and property of either the disputant or the public at large; that its efforts have been directed to influencing the law enforcement authorities of the city to do their duty with the result that certain strikes have been settled peaceably, and violence on the part of individuals not parties to the controversy in the

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"building trades has been greatly diminished; and that the contribution of \$500 authorized by the bank's Board of Directors to this organization was not made on the part of the bank as such, but as the owner of a large office building in cooperation with other building owners in the downtown district; also that the Reserve bank, as a building owner, subscribes to the purposes and efforts of the Kansas City Citizens Protective Council, Inc.

"In the past the Board has consistently taken the position that it cannot authorize the expenditure of Federal Reserve bank funds by way of donations to further purposes, no matter how worthy, which are not directly related to the conduct of the affairs of the bank. While the activities of the Kansas City Citizens Protective Council, Inc. may indirectly benefit the Federal Reserve bank as a property owner, in the Board's opinion there is considerable doubt as to the advisability of a Federal Reserve bank making contributions to be used for the above purposes, and accordingly it is requested that further contributions of this kind be not made by the bank without first obtaining the Board's approval."

Approved unanimously.

Reference was made to a draft of a letter to Mr. T. S. Manners, Mansfield, Ohio, reading as follows:

"This refers to your letter of November 6, 1937, containing an expression of your views regarding the activities of investment rating services and an inquiry as to whether the Board 'is satisfied with the F.D.I.C. regulation which turns control of bank investments over to the Rating companies.'

"The Federal Deposit Insurance Corporation has confirmed our understanding that the Corporation has not issued any regulation relative to the purchase of investment securities and it is assumed that your inquiry refers to the regulations promulgated by the Comptroller of the Currency on February 15, 1936, relative to the purchase of investment securities by member banks, a copy of which is inclosed for your information.

"Section II of the regulations includes the following provisions:

'(3) The purchase of "investment securities" in which the investment characteristics are distinctly or predominantly speculative, or "investment securities" of a lower designated standard

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"than those which are distinctly or predominantly speculative, is prohibited.\* The purchase of securities which are in default, either as to principal or interest, is also prohibited."

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NOTE:

\*"The terms employed herein may be found in recognized rating manuals, and where there is doubt as to the eligibility of a security for purchase, such eligibility must be supported by not less than two rating manuals."

"It is not believed that the provisions above-quoted should be interpreted as delegating any authority to the investment rating services in connection with the administration of an investment portfolio of a member bank. In fact, in public speeches as well as in rulings, the Comptroller of the Currency has definitely stated that such delegation was not intended. In this connection you may be interested in the following rulings contained in a circular dated October 27, 1936, addressed to member banks and entitled 'LAW AND SUMMARY OF REGULATIONS AND RULINGS GOVERNING THE PURCHASE OF INVESTMENT SECURITIES, AND FURTHER DEFINING THE TERM "INVESTMENT SECURITIES" AS USED IN SECTION 5136 OF THE REVISED STATUTES AS AMENDED BY THE "BANKING ACT OF 1935":

'54. Rating of securities in rating manual. - The fact that an investment security or an issue of investment securities may not be rated in the investment manuals is not conclusive against eligibility for investment. It is recognized that for one cause or another various securities which may be desirable as an investment and may comply in all respects with the regulations may, nevertheless, receive no rating classification by the manuals. The test for purchase of investment securities is not one of rating but one of fact as to whether or not "the investment characteristics are distinctly or predominantly speculative."

'55. Responsibility for investment of bank's funds not delegated to manual. - Responsibility for proper investment of bank funds rests primarily with the directors and there is no intention on the part of the office of the Comptroller of the Currency, in the promulgation of the regulations or otherwise, that this responsibility should be delegated to the rating services of

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"others, or in any way be considered as having been fully performed by merely ascertaining that a particular security falls within a particular rating classification."

"The latter paragraph indicates clearly that responsibility for proper investment of the funds of a member bank continues to rest primarily with the directors of the bank and has not been changed by the regulation.

"The purpose of the Comptroller's regulations and the amendment to the law under which they were issued was the furtherance of sound banking through the requirement that securities purchased as investments by member banks be limited to securities of high grade and true investment character, a purpose with which the Board is wholeheartedly in sympathy."

The proposed letter, which had been circulated among the members of the Board, was discussed in the light of the question whether Mr. Manners' inquiry should be answered by the Board or referred to the Comptroller of the Currency or the Federal Reserve Bank of Cleveland for reply.

At the conclusion of the discussion, upon motion by Mr. Ransom, the proposed reply was approved unanimously.

Mr. Ransom called attention to a letter which had been received by him under date of December 2, 1937, from Mr. Young, President of the Federal Reserve Bank of Boston, referring to the question of uniform dates for meetings of boards of directors of the Federal reserve banks, and expressing the opinion that, in so far as the Boston bank was concerned, the purposes of the Board of Governors could be met without inconvenience to the directors of the bank by the board of directors taking action on rates at its regular meetings on

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Wednesdays with the understanding in each case that the rates established would become effective on the following Friday if approved by the Board of Governors. The letter pointed out that this procedure would permit the Board of Governors to review and determine the rates established by the bank on Thursday which is the day upon which the boards of directors of most of the Federal reserve banks meet at the present time.

Mr. Ransom moved that President Young be advised that the procedure suggested by him was acceptable to the Board, pending final action on the report of the special committee of Presidents appointed at the last meeting of the Presidents' Conference to consider the question of uniform meeting dates of the boards of directors of the Federal reserve banks.

Carried unanimously.

Reference was then made to a memorandum dated December 6, 1937, from Mr. Smead submitting a letter dated November 20 from Chairman Crowley of the Federal Deposit Insurance Corporation requesting that the Board obtain, at the time of the December call for reports of condition of State member banks, certain information with respect to the distribution of deposits among the various branch offices, if any, of such banks. The memorandum stated that the Comptroller of the Currency obtained separate condition reports of branches of national banks as of each call date; that the Board heretofore, with one or two exceptions, had not required that State member banks submit separate reports for each of their branches; that in view of Mr. Crowley's request, it was

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felt that State member banks should be requested at the time of the December call to submit such information which would also be of statistical value to the Board; and that, therefore, it was recommended that the following letter to Mr. Crowley be approved:

"Reference is made to your letter of November 20 requesting the Board to obtain certain information with respect to branches of State bank members of the Federal Reserve System in connection with the customary December call.

"The Board has decided to request State bank members of the Federal Reserve System, which operate branches, to furnish a summary condition statement as of the next call date for each of their branches. The inclosed form, 105h, will be used for this purpose. When the forms have been completed and returned to the Board we shall either furnish you with summaries of the information received or make the forms available to you."

Mr. Crowley's request was discussed in the light of the policy of the Board of avoiding requests to State member banks for information unless there was a good reason for such requests. Mr. Smead pointed out that similar information would be obtained by the Comptroller of the Currency relating to national banks and by the Federal Deposit Insurance Corporation relating to nonmember insured banks; that if the request were not made by the Board it would be made separately by the Federal Deposit Insurance Corporation; and that it would be more desirable to request the information in connection with the call than to have an entirely separate request made by the Federal Deposit Insurance Corporation. Mr. Smead also stated that the information which would be required would be comparable with that obtained by the Comptroller of the Currency from national banks.

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At the conclusion of the discussion, upon motion by Mr. Ransom, Mr. Smead's recommendation was approved unanimously.

Mr. Davis moved that the Board appoint Messrs. Thurston, Morrill, Smead, Goldenweiser, and R. L. Horne of the Division of Research and Statistics, as a standing committee on visual education, the duty of which would be to consider and make recommendations to the Board with respect to the preparation of exhibits at expositions and the suitability of moving pictures and other means of visual education for disseminating information with respect to the Federal Reserve System.

In connection with Mr. Davis' motion consideration was given to a memorandum dated December 8, 1937, from Mr. Smead, which had been circulated among the members of the Board, and which, after reviewing the consideration being given to Government exhibits at the Golden Gate International Exposition, the Pan American Exposition and the New York Exposition, all of which are to be held in 1939, stated that after reviewing the matter, Messrs. Morrill, Goldenweiser and Smead felt that the Pan American Exposition, which would be relatively small, might afford an opportunity to test out a Federal reserve exhibit, and that, while there was some doubt as to the possibility of preparing such an exhibit, it was felt the Board might designate a committee, preferably headed by Mr. Thurston, to review the subject.

At the conclusion of the ensuing discussion, Mr. Davis' motion was carried unanimously.

Attention was directed to an executive order issued by the

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President of the United States on December 6, 1937, directing that the executive offices, independent establishments and other Government agencies in the District of Columbia be closed all day on Friday, December 24, 1937.

It was agreed that the offices of the Board should be closed on December 24, 1937.

Mr. McKee presented, for the consideration of the Board, the application of "The People's Bank of Potsdam, New York", Potsdam, New York, for membership in the Federal Reserve System and referred in that connection to the criticisms which had been made of the management of the bank. At Mr. McKee's request Mr. Leonard outlined the important circumstances involved in connection with the application and the reasons for the favorable recommendation of the board of directors of the Federal Reserve Bank of New York and the Board's Division of Examinations. There was a discussion of the question whether the bank should be admitted at the present time with the understanding that the Federal Reserve Bank of New York would follow the situation closely to see that proper progress was made in working out the criticized matters, or whether admission of the bank should be deferred until further corrections had been effected. There was also a discussion of the attitude of the Division of Examinations of the Federal Reserve Bank of New York in regard to the correction of criticized matters in State member banks in that district and whether more effective steps should be taken by the reserve bank in that connection.

At the conclusion of the discussion, upon motion by Mr. Szymczak, Mr. McKee was

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requested to give further consideration to the questions raised by the discussion and to submit a recommendation to the Board.

At this point Messrs. Thurston, Paulger, Smead, Dreibelbis and Leonard 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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 9, 1937, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Taylor, Secretary pro tem of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. Young, Secretary of the Federal Reserve Bank of Chicago, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. McKinney, President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the New York, Richmond, Chicago and Kansas City banks on December 9, 1937, and by the Cleveland and Dallas banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum from Mr. Carpenter, Assistant Secretary, stating that the recent elections at Federal reserve banks resulted in the election of the following Class A and B directors, each for a term of three years beginning January 1, 1938:

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"Class A Directors

<u>Name</u>	<u>Business Affiliation</u>	<u>Bank</u>
* Lewis S. Reed	President, Citizens & Manufacturers National Bank, Waterbury, Conn.	Boston
William C. Potter	Chairman, Guaranty Trust Company of New York, New York, New York.	New York
* John B. Henning	President, Wyoming National Bank, Tunkhannock, Pennsylvania.	Philadelphia
H. B. McDowell	President, The McDowell National Bank of Sharon, Sharon, Penna.	Cleveland
* James C. Braswell	President, Planters National Bank & Trust Company, Rocky Mount, N.C.	Richmond
* W. D. Cook	Executive Vice President, First National Bank, Meridian, Miss.	Atlanta
* E. R. Estberg	President, Waukesha National Bank, Waukesha, Wisconsin.	Chicago
* F. G. Hitt	President, First National Bank, Zeigler, Illinois.	St. Louis
* M. O. Grangaard	Vice President, First National Bank & Trust Company, Minneapolis, Minn.	Minneapolis
* Frank W. Sponable	President, Miami County National Bank, Paola, Kansas.	Kansas City
* Pat E. Hooks	President, First National Bank, Itasca, Texas.	Dallas
* C. K. McIntosh	President, Bank of California, National Association, San Francisco, California.	San Francisco

"Class B. Directors

* E. S. French	President, Boston & Maine Railroad, Boston, Massachusetts.	Boston
* Thomas J. Watson	President, International Business Machines Corporation, New York, N.Y.	New York
* C. Frederick C. Stout	John R. Evans & Company, Camden, New Jersey.	Philadelphia
* R. P. Wright	Secretary-Treasurer and Plant Manager, Reed Manufacturing Company, Erie, Pennsylvania.	Cleveland
* John H. Hanna	Chairman, Capital Transit Company, Washington, D. C.	Richmond

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<u>Name</u>	<u>Business Affiliation</u>	<u>Bank</u>
* Fitzgerald Hall	President, The Nashville, Chattanooga & St. Louis Railway, Nashville, Tennessee.	Atlanta
* S. T. Crapo	Vice President and Treasurer, Huron Portland Cement Company, Detroit, Michigan.	Chicago
Harvey C. Couch	President, Arkansas Power & Light Company, Pine Bluff, Arkansas.	St. Louis
* W. O. Washburn	President, W. O. Washburn & Sons, St. Paul, Minnesota.	Minneapolis
* J. M. Bernardin	Vice President, The Burk Lumber Company of Dawson, Dawson, N. Mex.	Kansas City
Harry C. Wiess	President, Humble Oil and Refining Company, Houston, Texas.	Dallas
* Elmer H. Cox	President, Madera Sugar Pine Company, San Francisco, California.	San Francisco
* Reelected"		

Noted.

Thereupon the meeting adjourned.

Chester Morier  
Secretary.

Approved:

W. S. ...  
Chairman.