

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 28, 1937, at 2:45 p. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Solomon, Assistant Counsel

Mr. Szymczak presented a letter dated December 23, 1937, from Mr. Rounds, Vice President of the Federal Reserve Bank of New York, transmitting a copy of a letter dated December 21 from the New York Stock Exchange which stated that member firms in some instances would have insufficient time before January 1, 1938, to receive a duplicate original of the signed statement required by Section 4(b) of Regulation T, as revised, and that it was recommended by the Exchange that the Board rule that an appropriate committee of the Exchange might grant extensions of time after January 1, 1938, but not beyond February 1, 1938, within which a member might file a duplicate original of the statement referred to. Mr. Rounds' letter called attention to the fact that a similar difficulty would be encountered in obtaining the

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customer's signed statement required by subdivision (1) of Section 4(b) of Regulation T and stated that, therefore, it was recommended that the Board amend the revised regulation so as to provide in substance that in case a member who had heretofore maintained a special account pursuant to Section 3(b) of the existing regulation was unable to obtain either of the statements required by Section 4(b) of the revised regulation, (1) the member's signed statement that he believed that the customer is subject to the provisions of Regulation T or has places of business only in foreign countries might serve in lieu of the first required statement, and (2) the member's signed statement that he believed that the securities to be given loan value and all short sales of securities carried in the account were in turn carried by the customer for the account of his own customers other than his partners might serve in lieu of the second required statement, but only until March 1, 1938, in each case, or the time when the creditor was able to obtain the required statements, whichever was earlier. Mr. Bradley said that Dr. Parry was of the opinion that, if the revised regulation had been given the publicity in the newspapers that was anticipated when it was issued, there would have been ample time to file the required statements, but that, since such publicity was not given and the requirements were not known until copies of the regulation were distributed, it was felt some action should be taken by the Board.

At the conclusion of the discussion,
upon motion by Mr. Szymczak, the following
resolution was adopted by unanimous vote:

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WHEREAS, section 4(b) of Regulation T, as revised effective January 1, 1938, provides that in a special omnibus account carried by a member of a national securities exchange for a customer, transactions may be effected in reliance upon a signed statement which the member has accepted from the customer in good faith, and a duplicate original of which has been filed by the member with the secretary of a national securities exchange of which he is a member, that the customer is a broker or dealer who is subject to the provisions of Regulation T or has places of business only in foreign countries;

WHEREAS, section 4(b) also provides that in a special omnibus account no security shall have loan value and no short sales of securities shall be carried except securities and short sales as to which the member shall have accepted in good faith a signed statement of the customer that he is in turn carrying such securities and such short sales for the account of his customers other than his partners; now, therefore, be it

RESOLVED, That, in order to facilitate the transition from the old regulation to the revised regulation, the Board hereby prescribes that a member who on December 31, 1937 was carrying for a customer an account that complied with the provisions of section 3(b) of Regulation T as then in effect, may, until March 1, 1938 or such earlier time as he may be able to obtain from the customer the statements referred to above, use in lieu of such statements of the customer, the member's own signed statement that he believes the facts to be as they are required to be stated by the customer in such statements under the revised regulation.

In accordance with the above action
unanimous approval was given to the attached telegram to the Presidents of all
Federal reserve banks:

"Section 4(b) of Regulation T, as revised effective January 1, 1938, provides that in a special omnibus account carried by a member of a national securities exchange for a customer, transactions may be effected in reliance upon a signed statement which the member has accepted from the customer in good faith, and a duplicate original of which has been filed by the member with the secretary of a national securities exchange of which he is a member, that the customer is a broker or dealer who is subject to the provisions of Regulation T or has places of business only

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"in foreign countries. Section 4(b) also provides that in a special omnibus account no security shall have loan value and no short sales of securities shall be carried except securities and short sales as to which the member shall have accepted in good faith a signed statement of the customer that he is in turn carrying such securities and such short sales for the account of his customers other than his partners.

"In order to facilitate the transition from the old regulation to the revised regulation, the Board hereby prescribes that a member who on December 31, 1937 was carrying for a customer an account that complied with the provisions of section 3(b) of Regulation T as then in effect, may, until March 1, 1938 or such earlier time as he may be able to obtain from the customer the statements referred to above, use in lieu of such statements of the customer, the member's own signed statement that he believes the facts to be as they are required to be stated by the customer in such statements under the revised regulation.

"It will be appreciated if you will advise any national securities exchanges in your District of the contents of this telegram."

At this point Messrs. Bradley and Solomon withdrew from the meeting.

Chairman Eccles stated that the terms of Messrs. Davis and McKee as appointive members of the Personnel Committee would expire on December 31, 1937, that there were a number of matters that required the continuing attention of the Personnel Committee over the year-end, and that since the members of the executive committee of the Federal Open Market Committee would be chosen shortly after March 1 of each year which would afford an opportunity to select as representatives of the Board of Governors on the executive committee of the Federal Open Market Committee members of the Board who were not members of the Personnel Committee of the Board, he wished to suggest that the Board determine that the terms of the appointive members of the Per-

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sonnel Committee should be from March 1 to March 1 of each year and that the appointments of Messrs. Davis and McKee as members of the Personnel Committee be continued for the further period of two months.

Chairman Eccles' suggestion was agreed to unanimously and in accordance therewith the appointments of Messrs. Davis and McKee as members of the Personnel Committee were continued until March 1, 1938.

Reference was made to a memorandum dated December 28, 1937, from Mr. Smead submitting and recommending approval of requests from Federal reserve banks for authority to set aside, as of December 31, 1937, additional reserves as follows:

1. Request from the Federal Reserve Bank of Boston for authority to increase from \$78,000, as originally approved by the Board, to \$102,000 its reserve for losses on industrial advances and commitments, the increase being regarded as necessary to cover estimated losses on specific industrial advances outstanding.
2. Request from the Federal Reserve Bank of Cleveland for authority to charge surplus (Section 7) and to carry to reserves for contingencies approximately \$260,000, the estimated amount of net earnings remaining after the payment of dividends.
3. Request from the Federal Reserve Bank of Atlanta for authority to increase the special reserve of \$25,000 on the Birmingham Branch building, previously authorized by the Board, to \$50,000, which would reduce the book value of the building to a point where a depreciation allowance of two percent per annum would provide a one-hundred percent reserve in approximately forty years instead of the normal fifty years.

Upon motion by Mr. Ransom, the requests were approved unanimously.

During the discussion of the above matter it was understood that prior to July 1,

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1938, Mr. Smead would make a study of the special reserves set up by the Federal reserve banks and make a recommendation with respect to a uniform policy to be adopted by the Board with regard to future additions by the Federal reserve banks to reserves.

There followed a discussion of the advices received by the Board from Federal reserve banks with respect to adjustments in salaries of officers proposed to be made by the boards of directors of the respective banks at their January meetings.

During the discussion there was presented a letter dated December 23, 1937, from Chairman Thomas of the Federal Reserve Bank of Kansas City, transmitting a resolution adopted by the board of directors at its meeting on that date which requested that the Board approve (1) a salary at the rate of \$15,000 per annum for Mr. H. G. Leedy who had been appointed by the board of directors as Vice President, General Counsel and Secretary, and (2) the assignment of Mr. Worthington, First Vice President, to supervise the examination department of the bank.

Upon motion by Mr. Davis, unanimous approval was given to the salary proposed for Mr. Leedy in the new position and to the designation of Mr. Worthington as an examiner for the Federal Reserve Bank of Kansas City and as the officer to supervise the bank examination department under the procedure outlined in the Board's letter of July 17, 1936, regarding the transfer to the Federal reserve bank of the nonstatutory functions which had previously been performed by the Federal Reserve Agent.

At this point Messrs. Thurston, Wyatt and Smead left the meeting

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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 27, 1937, were approved unanimously.

Memorandum dated December 23, 1937, from Mr. Morrill recommending, for the reasons stated in the memorandum, that effective as of January 1, 1938, the charwomen for the Board be placed on a permanent basis, subject to their passing satisfactorily the usual physical examination required to be taken by members of the Board's staff as a condition precedent to admission to the Retirement System, with no change in their present salary rate of 50¢ per hour, and be required to join the Retirement System, and that all new charwomen employed by the Board after January 1, 1938, also be required to join the Retirement System, subject, of course, to the same conditions as those affecting other new employees joining the Board's staff. The memorandum also recommended, for the reasons outlined therein, that, effective January 1, 1938, the charwomen for the Board, if placed on a permanent basis, be granted twenty-six days annual leave and fifteen days sick leave per year, such leave to be granted on the basis of a four-hour day and at the prevailing wage rate paid by the Board, except that, in the case of relief charwomen, annual and sick leave be granted on a basis

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Proportionate to the number of four-hour days worked during the year.

The recommendations were approved unanimously.

Memorandum dated December 22, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 18 from Mr. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, which requested approval by the Board of changes in the Personnel classification plan of the bank to provide for changes in the maximum salary for the position of "Bookkeeper" in the Credit Department and "Guard (day)" in the Guards Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

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

"Reference is made to your letter of November 30, 1937, with its inclosures, addressed to Mr. Paulger regarding the American Bank and Trust Company, Miami, Florida, and its application for membership which had been made prior to its opening for business in October 1936 and on which the Board had deferred action until after a proposed strengthening of the management had been effected and the institution had been in operation for a sufficient time to prove that it merited membership.

"At the time the application was under consideration, it was understood that the organizers had agreed with the Federal Deposit Insurance Corporation to strengthen the executive staff as soon as practicable by the addition of a practical banker of tested experience. The reports of examination of the bank made as of October 19, 1937, by the Federal Deposit Insurance Corporation and the State Banking Department show that there has been no change in

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"the management, and apparently the original intention to employ an experienced bank executive within a short time after the bank had opened for business has been abandoned, as the management is said to believe that an examination would disclose that the active officers had demonstrated their ability to operate the bank successfully and conservatively. In this connection, however, you report that you have been assured that the management would not hesitate to obtain the services of another executive whenever it should appear that the business of the institution required such additional services.

"You advise that the officers of the bank indicated that they expect that a new application for membership will be submitted the first part of next year, and you ask for advice as to whether, in connection with such an application, you should continue to insist upon a strengthening of the management even though your examination of the trust company should reveal that the present officers had demonstrated their ability to operate the bank successfully and conservatively.

"As you know, the Board deferred action on the bank's application for membership, not because of any belief that the proposed management was incompetent, but because of reservations based upon the reported experience of the individuals as to whether the proposed officers had the proper background and banking experience to qualify them for managing the bank. However, it appears that Mr. Daniels, the vice president and cashier, who it was understood was to have charge of operating details, has established himself as a dominating factor and is highly regarded by the State Banking Department and examiners for the Federal Deposit Insurance Corporation.

"The Board is interested in sound management and is not concerned whether such management is provided by additions to the executive personnel of a bank from outside sources or by the development of individuals within the organization. If, therefore, your examination shows that the institution is being capably managed, there would seem to be no reason why a change or strengthening in the management should be insisted upon in connection with the bank's admission to membership. In connection with renewed consideration of the application of the bank for membership, however, it will be necessary to obtain clearance from the Federal Deposit Insurance Corporation as to the management question, inasmuch as the organizers of the bank had agreed with the Corporation that, as early as practicable, the executive staff of the bank would be augmented by a practical banker of tested experience. Any other agreements with the Federal Deposit

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"Insurance Corporation which have not been fulfilled should also be cleared."

Approved unanimously.

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

"Reference is made to your letter of December 16, 1937, relative to the acquisition of certain assets and assumption of the deposit liabilities of 'The Old National Bank of New Brighton', by the 'Beaver County Trust Company', both of New Brighton, Pennsylvania, which was effected December 4, 1937.

"It appears from the information submitted that the transaction has not resulted in any material change in the general character of the assets or broadening of the functions exercised by the Beaver County Trust Company within the meaning of the condition of membership numbered 3, under which it was admitted to membership in the Federal Reserve System. The Board, therefore, in accordance with your recommendation, interposes no objection to the transaction, it being understood that it has been approved by the appropriate State authorities, and that your counsel is satisfied as to the legal aspects involved."

Approved unanimously.

Letter to "The National Bank of Waupun", Waupun, Wisconsin, reading as follows:

"This refers to the resolution adopted on June 1, 1937, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise the trust powers which have heretofore been granted to it by the Federal Reserve Board, now known as the Board of Governors of the Federal Reserve System.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the

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"Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"Reference is made to your letter of December 17, 1937, regarding extensions of time by a business conduct committee pursuant to section 4(c) of revised Regulation T.

"In the case presented, a member of a national securities exchange who is domiciled in this country maintains for a customer who is domiciled abroad a special cash account that conforms to section 4(c) of the revised regulation. Securities sold 'regular way' in this account are shipped by the customer to the member promptly after the sale. Due to the time required in transit, the average interval between the sale and the receipt of securities by the member is greater than seven days, but less than fifteen days. Such sales and shipments are of frequent occurrence.

"The inquiry indicates that the business conduct committee of the member's exchange is satisfied that the facts are such that under section 4(c) it would be justified in extending the time to fifteen days separately for each such transaction if the member made a separate application in connection with each transaction. The member and the committee would, however, like to avoid the necessity for repeated separate applications and extensions on the occasion of each such transaction between the given member and customer.

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"The question presented is whether in the circumstances described the committee may, on the basis of a single application by the member, extend the period to fifteen days for all transactions of the type described that the given member may effect in the future for the given customer. It is the opinion of the Board that section 4(c) permits such an extension of time, and that repeated individual applications and extensions in connection with such transactions between the given member and customer may thus be avoided."

Approved unanimously.

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

"Retel December 23 If customer having special omnibus account under section 4(b) of revised Regulation T is incorporated securities firm, securities and short sales of officers, directors or stockholders thereof need not be denied loan value or excluded from the account as those of a 'partner'."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of December 14, regarding the establishment of credit unions at Federal Reserve banks.

"It is our understanding that a credit union has been in existence for some time at the Federal Reserve Bank of Minneapolis. We have no information as to credit unions at any other Federal Reserve banks, but it may be of interest to note that employees of the Board organized a Federal Credit Union in May, 1935. Similar credit unions have been formed in a large number of Governmental offices in Washington.

"There are inclosed for your information a copy of the Federal Credit Union Act, a specimen copy of the by-laws of the Federal Credit Union, a copy of a memorandum dated September 15, 1936, from Mr. J. Edward Kilgore, Treasurer of the F. R. B. Federal Credit Union, to all members of the Board and officers and employees of the Board not members

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"of the F. R. B. Federal Credit Union, and a memorandum of the same date from Mr. Kilgore to all members of the credit union with respect to the percentage of the Board's employees who are members of the credit union with which was inclosed a financial and statistical report with respect to the operation of the union, together with a copy of the latest financial and statistical report of the F. R. B. Federal Credit Union.

"Referring to the last sentence in your letter, the Board interposes no objection to the organization of a credit union by the employees of your bank, with the understanding that such credit union would not receive deposits from or make loans to persons other than employees of the bank or its branches, and provided that the bank is in no way responsible for the operation thereof."

Approved unanimously.

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

"Reference is made to your letter of December 11, 1937, requesting the Board's approval of the action of your Board of Directors taken on December 11, 1937, with reference to loans to employees.

"The Board of Governors approves the action of your Board of Directors providing that the amount of the existing employees' loan fund be transferred to profit and loss and authorizing the Discount Committee of the Head Office to make loans to employees of the Head Office and branches in an aggregate amount not to exceed \$6,000 at any one time."

Approved unanimously.

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

"Consideration has been given to Mr. McRae's letter of November 29, 1937 and the inclosed memorandum opinion of General Counsel to your bank and the copy of the letter from Mr. Carroll, vice president of The National Shawmut Bank of Boston, regarding the applicability of the Clayton Act to Mr. Leverett Saltonstall. The question presented is whether

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"Mr. Saltonstall may continue to serve as a director of the national bank and as a director of the Boston Safe Deposit and Trust Company until February 1, 1939, in view of the provision in the Clayton Act that: 'Until February 1, 1939, nothing in this section shall prohibit any director * * * who is lawfully serving * * * on the date of the enactment of the Banking Act of 1935, from continuing such service.'

"From the information before the Board it appears that Mr. Saltonstall was 'lawfully serving' as a director of both the above institutions on the date of the enactment of the Banking Act of 1935, under a permit issued to him by the Board. However, shortly thereafter he resigned from both institutions because he intended to seek election as Governor of Massachusetts, and a junior officer was elected to take his place temporarily on the board of the national bank. He was not elected Governor, and in May 1937, a year and a half after he had resigned, he was reelected a director of both institutions.

"The Board is of the opinion that the provision quoted above is not applicable in such a case. In construing this provision it is important to remember that the Banking Act of 1935 amended the Clayton Act so as to prohibit a large number of relationships which had not previously been prohibited. The obvious purpose of the provision was to avoid the necessity for wholesale resignations on the effective date of the amendments and to give the banks involved a reasonable time within which to make the required readjustments. Since the only purpose of the provision was to avoid the hardship which might result from a resignation, it cannot be construed as authorizing the resumption of a relationship which has already been terminated.

"This conclusion is supported by the language of the provision, which does not say that such relationships shall be lawful until February 1, 1939, but provides merely that the prohibitions of the amended statute shall not prevent a director from 'continuing' the relationships until that date. This language implies, at least, that the service must be continuous.

"Mr. Carroll refers to a ruling made by the Board in 1925 which held that the resignation of a director serving under a Clayton Act permit was tantamount to the abandonment of his permit, but argues that in the circumstances of this case there was no abandonment. However, this question is no longer involved because the Banking Act of 1935 eliminated from the Clayton Act the provision authorizing the issuance

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"of permits by the Board, and the permit thereupon ceased to have any effect, except as it affected the question whether he was 'lawfully serving' on the date of the enactment of the Banking Act of 1935 within the meaning of the provision discussed above.

"The Board is not unmindful of Mr. Carroll's suggestion that his bank will lose a valuable director if Mr. Saltonstall is not permitted to serve the two institutions, but as pointed out above the matter is governed by statute and the Board no longer has power to grant permits in such cases."

Approved unanimously.

Memorandum dated December 27, 1937, from Mr. Koppang, which had been approved by the Personnel Committee, recommending for the reason stated in the memorandum, the purchase in a three-year policy of public liability insurance on the Board's parking lot with \$50/300,000 limitations, at a cost of \$34.69.

Approved unanimously.

There was submitted a recommendation, which had been approved by the Personnel Committee, that the Board authorize the payment of \$265.17 for the changing of electrical circuiting in the corridors of the Board's new building, as set forth in purchase order No. 2724.

Approved unanimously.

Thereupon the meeting adjourned.

Chesler Morrie
Secretary.

Approved:

W. L. Carter
Chairman.