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

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 December 29, 1937, were approved unanimously.

Telegrams to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, and Mr. Ziemer, Vice President of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Bonds, in the amount of $100,000, executed under date of October 29, 1937, by Mr. Richard L. Austin as Federal Reserve Agent, and in the amount of $50,000, executed under date of December 20, 1937, by Mr. Arthur E. Post as Assistant Federal Reserve Agent, at the Federal Re-

serve Bank of Philadelphia.

Approved unanimously.

Telegrams to Messrs. Curtiss, Austin, Burke, Nardin, Geery and Stewart, Chairmen and Federal Reserve Agents at the Federal Reserve Banks of Boston, Philadelphia, Cleveland, St. Louis, Minneapolis and San Francisco, respectively, advising that the Board had designated them as Chairman and Federal Reserve Agent at the respective banks on an honorarium basis for the year 1938 and had fixed their compensation as Chairman and Federal Reserve Agent in each case on the uniform basis fixed for the same position at other Federal reserve banks; i.e., at the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to that of the Chairman and Federal Reserve Agent at meetings of the board of directors, executive committee and other committees of the board of directors.

Approved unanimously.

Memorandum dated December 27, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 15, 1937, from Mr. Rounds, Vice President of the Federal Reserve Bank of New York, which requested approval by the Board of changes in the personnel classification plan of the bank to provide for the creation of the position of "Law Clerk" in the Legal Department, with a maximum salary of $3,600 per annum, and for the discontinuance of the positions of "Senior Law Clerk" and "Law Clerk" in the Legal Department, with maximum salaries of $2,700 and $2,220 per annum, respectively. In this connection, there was also submitted a memorandum dated December 21, 1937,

from Mr. Wyatt, General Counsel, recommending approval of the proposed changes with the understanding, however, that the Federal Reserve Bank of New York will grant increases in salary only upon merit rather than to make such increases automatic within certain limits.

The proposed changes in the personnel classification plan were approved unanimously subject to the understanding suggested by Mr. Wyatt.

Letter to Mr. Cecil H. Spedden, Baltimore, Maryland, reading as follows:

"Reference is made to your letter of November 30, 1937, concerning your ownership of certain stock of the Union Trust Company of Maryland, Baltimore, Maryland.

"The Board is advised that the amendment to the agreement under which the Union Trust Company of Maryland was reorganized pursuant to the Maryland Emergency Banking Law has been effected, as provided in the agreement, with the approval of the State Bank Commissioner, the Boards of Directors of the Union Trust Company and the City Certificates Corporation and the holders of the required percentage of outstanding Certificates of Beneficial Interest.

"It is believed that the officers of the Union Trust Company will be glad to explain the details of the plan for reorganization and the status of your holdings."

Approved unanimously.

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

"This refers to your letter of December 6, 1937, and its inclosures, stating that there are several nonmember banks in Indiana and Michigan which have indicated their desire for membership in the System but which have deferred filing formal application due to the fact that the president or chairman of the board of directors is indebted to the bank in excess of $2,500. You state that in your opinion

"such banks will not file an application for membership unless such inactive officers are permitted to borrow on the same basis as other directors and suggest that the Board reconsider the matter of excluding inactive officers from the provisions of Regulation O in the light of recent State legislation.

"As you know, the Board gave careful consideration to this question at the time Regulation O was promulgated, and on several occasions since then the Board has reconsidered this particular matter in the light of other suggestions. It has been the Board's position, however, that it would not be justified in excluding inactive officers from the provisions of Regulation O for the following reasons:

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that the chairman of the board of directors and the president of a member bank should appropriately be regarded as executive officers for the purposes of the law in question even though they may be inactive;

(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

"It is noted that the banking laws of Indiana and Michigan, referred to in your letter, are applicable only to active executive officers and in this respect such laws differ from section 22(g) wherein no such distinction is made.

"The Board appreciates your calling this matter again to its attention, particularly in the light of the circumstances stated in your letter, but, after careful reconsideration of the matter, feels that for the reasons stated above it would not be justified in excluding inactive officers from the provisions of Regulation O.

"For your information in discussions with nonmember State banks now or hereafter seeking admission to the Federal Reserve System, the Board considers that loans in any amount by such banks to their executive officers made prior to admission to membership or even prior to June 16, 1933, are not prohibited by section 22(g) or the provisions of the Board's Regulation O from being renewed or extended after membership or after June 16, 1938. However, an executive officer of such bank could not obtain additional loans from his bank after it is admitted to membership if by so doing his total indebtedness to the bank would be increased to an amount in excess of $2,500."

Approved unanimously.

Letter to Mr. Christian C. Luhnow, Editor, Trust Companies, New York, New York, reading as follows:

"This is in reply to your letter of December 7, inquiring whether the Metropolitan Trust Company, Chicago, Illinois, which was recently admitted to membership in the Federal Reserve System, is the first independent and exclusively fiduciary institution to become a member of the System. It is assumed that by an independent trust company you mean a company not affiliated with another bank, as you state that you know of three solely fiduciary corporations which are members of the System and that each of the three is affiliated with a commercial bank.

"The Metropolitan Trust Company is the first and only institution transacting solely a fiduciary business and not an affiliate of a member bank to become a member of the Federal Reserve System.

"Presumably the three other solely fiduciary corporations to which you referred as members of the System are:

Old Colony Trust Company, Boston, Massachusetts, an affiliate of The First National Bank of Boston;

First Trust Company of Philadelphia, Philadelphia, Pennsylvania, an affiliate of The First National Bank of Philadelphia; and

Continental National Bank and Trust Company of Chicago, Chicago, Illinois, an affiliate of Continental Illinois National Bank and Trust Company of Chicago.

"The Old Colony Trust Company was a commercial bank as well as a fiduciary institution when it became a member of

"the System in 1915 and its activities were not confined to fiduciary matters until many years later after its commercial banking business had been transferred to The First National Bank of Boston.

"The First Trust Company of Philadelphia was an affiliate of The First National Bank of Philadelphia when admitted to membership in December 1935.

"The Continental National Bank and Trust Company was originally engaged in the commercial banking business as well as in fiduciary activities.

"The word 'bank' as defined in the Federal Reserve Act includes a trust company and in 1934 the Board announced that while for several years it had taken the position that trust companies which did substantially no commercial banking business would not be admitted to membership, it had reviewed the question and decided that consideration should be given to applications for membership from trust companies of that type. Three trust companies, City Bank Farmers Trust Company of New York, First Trust Company of Philadelphia, and Metropolitan Trust Company of Chicago, have been admitted to membership under such policy."

Approved unanimously.

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

"This refers to your letter of December 13, 1937, with regard to the scope of the code words MARSOON and MARSOPE. You suggest that, if it is contemplated that action be taken every fourteen days with respect to rates on advances under section 10 (b), section 13b and the last paragraph of section 13 of the Federal Reserve Act, as well as on rates applicable to discounts for and advances to member banks under sections 13 and 13a of the Federal Reserve Act, the definitions of these code words might be broadened so as to include specifically a reference to rates of interest.

"It has been the Board's understanding that each Federal Reserve bank in establishing rates of discount every fourteen days pursuant to the provisions of section 14 (d) of the Federal Reserve Act has included in the rates so established rates applicable to transactions under all sections of the law included in your suggestion and that each Federal Reserve bank has used the word MARSOON in this sense in advising the Board of establishment without change of

"rates in existing schedules. In this connection, it will be noted that the form of rate schedule which was inclosed with the Board's letter of September 3, 1937, S-29, includes rates applicable to rediscounts for and advances to member banks under sections 13 and 13a, advances to member banks under section 10 (b), advances to individuals, partnerships and corporations secured by direct obligations of the United States under the last paragraph of section 13, and industrial advances and commitments under section 13b.

"The Board's records indicate that in practically every case advances made by the Federal Reserve banks under section 10 (b) of the Federal Reserve Act have been on a discount basis. In other words, in transactions under this section interest is deducted in advance by the reserve bank just as in connection with discounts for and advances to member banks under sections 13 and 13a. It also appears that all advances by Federal Reserve banks under the last paragraph of section 13 of the Federal Reserve Act have been on a discount basis and, while this has not been generally true with respect to industrial loans under section 13b, even under this section some transactions have been handled on a discount basis.

"In view of these circumstances, it is felt that there is no present necessity for a change in the definitions of the two code words mentioned."

Approved unanimously, with the understanding that a copy of the letter would be sent to the Presidents of all Federal reserve banks.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.