A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, February 26, 1938, 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 February 25, 1938, were approved unanimously.

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"In the course of discussions between the staffs of your Corporation, the Comptroller of the Currency, and this Board, it appeared to be the consensus that the following general principles should be followed in handling possible violations of Regulation U, the regulation of the Board which relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange:

1. Obtain compliance as far as possible by persuasion, and do not burden a bank with legal proceedings unless it shows that it is not amenable to other methods of correction.

2. Avoid as far as possible any necessity for investigation of banks by the Securities and Exchange Commission, which has certain broad enforcement powers under the Securities Exchange Act of 1934."
"3. Arrange for examiners and bank supervisory authorities to follow, in general, the same procedure as in violations of other banking laws such as those relating to interest on deposits or purchase of securities.

4. Arrange for examiners to report to the Comptroller, the Federal Deposit Insurance Corporation and the Federal Reserve banks, as the case may be, with these agencies feeling free to present questions to the Board for interpretation whenever they feel the need to do so.

5. Arrange that when a case reaches a point where legal proceedings should be instituted, the Federal Reserve bank, in the case of a State member bank, will report directly to the Board for the Board to refer the case to the Securities and Exchange Commission or the Attorney General, depending upon whether civil (injunction) or criminal action is desirable; and the Comptroller or the Federal Deposit Insurance Corporation, in the case of a national or insured nonmember bank, will report directly to the Securities and Exchange Commission or the Attorney General, in accordance with their own judgment as to whether civil or criminal action is desirable, and will send a copy of the report to the Board for its information. Arrange that the Board, for purposes of general information, will from time to time advise the Comptroller of any cases which the Board or the Federal Deposit Insurance Corporation has referred to the Securities and Exchange Commission or the Attorney General and which have not already been brought to the attention of the Comptroller, and likewise will advise the Federal Deposit Insurance Corporation of any such cases which the Board or the Comptroller may have so referred and which have not already been brought to the attention of the Federal Deposit Insurance Corporation.

6. Encourage close informal cooperation between all the agencies and their staffs.

"With the understanding that each of the three agencies expects to follow these suggestions at least until the efficacy of the proposed procedure can be further tested by experience, the Board plans to proceed accordingly, and it will be appreciated if you will confirm our understanding that this is also the intention of your Corporation. A similar letter is being addressed to the Comptroller of the Currency."

Approved unanimously, together with a similar letter to Mr. Marshall R. Diggs,
Acting Comptroller of the Currency.
Letter to Mr. Hill, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of February 14, 1938, and inclosures, with regard to the application of section 22(g) of the Federal Reserve Act and the Board's Regulation O to certain loans held by the Wilmington Trust Company which are guaranteed or endorsed by Mr. Pierre S. duPont, Honorary Chairman of the board of directors of the Trust Company. It is understood that Mr. duPont has no obligations to the Wilmington Trust Company except his guarantees or endorsements given to protect the Trust Company on debts contracted by other persons in good faith prior to the time when Mr. duPont's guarantees or endorsements were executed.

"Under the terms of Regulation O, its provisions are not applicable to the endorsing or guaranteeing for the protection of a member bank of any loan or other asset which has been previously acquired by the member bank in good faith, regardless of the amount thereof. As it is understood from your letter and its inclosures that the loans in question were acquired by the Trust Company in good faith and were subsequently endorsed or guaranteed by Mr. duPont for the protection of the member bank, such endorsements and guarantees do not fall within the provisions of Regulation O, whether or not he be considered an executive officer of the Trust Company, and there is nothing in the law or the regulation which forbids the continuance of the endorsements and guarantees in such circumstances either before or after June 16, 1938.

"Inasmuch as Mr. duPont now has no other obligation to the Wilmington Trust Company, and as it is not suggested that any other such obligation or indebtedness is in contemplation, it seems to be unnecessary to consider the question at this time whether Mr. duPont, as Honorary Chairman of the board of directors of the Wilmington Trust Company, is an executive officer within the meaning of section 22(g) and Regulation O."

Approved unanimously.

Letter to Mr. John A. Griswold, Associate Professor of Finance, The University of Oklahoma, Norman, Oklahoma, reading as follows:
"Reference is made to your letter of January 26, 1938, requesting monthly and yearly summaries of transactions through the Interdistrict Settlement Fund showing gains and losses of individual Federal Reserve banks in relation to each other.

"No annual summaries of transactions through the Interdistrict Settlement Fund such as you request are available, and monthly summaries of this type were discontinued at the end of 1934. It will not be possible for us to furnish you these monthly summaries to the end of 1934 as we have only the file copies, but we shall be glad to permit you to make such copies thereof as you may desire."

Approved unanimously.

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

"Receipt is acknowledged of your letter of 'January' (evidently February) 10, 1938, regarding the applicability of the Clayton Act to Messrs. R. C. Steese and John W. Ford, who are directors of The Union National Bank, Youngstown, Ohio, and also are members of the trust committee of The Dollar Savings and Trust Company, Youngstown.

"The opinion of counsel to your bank which you enclosed states that according to the information you have obtained the trust committee of The Dollar Savings and Trust Company was constituted in pursuance of a resolution of the bank's board of directors under date of May 13, 1932, which authorized the creation of a trust committee to be appointed by the board, to serve during its pleasure, and to act in an advisory capacity to the executive committee and to the board of directors with regard to all matters relating to the trust department; and that as a matter of practice the trust committee meets several times a year (about four times a year according to the last report of examination), considers a report by the trust officer, adopts resolutions of recommendation addressed to the executive committee regarding the purchase or sale of securities held in the trust department and occasionally makes recommendations as to other matters of policy which may arise in connection with the operations of the trust department; and that since the beginning of the year 1937 members of
"the trust committee have been compensated by paying to them the sum of $5.00 for each meeting attended. "In view of this information, the Board sees no reason to differ with the conclusion reached by your counsel that neither Mr. Steese nor Mr. Ford is a 'director, officer, or employee' of The Dollar Savings and Trust Company within the meaning of the Clayton Act, and that therefore their services described above are not in violation of that Act."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

(Cheese Morrice
Secretary.)