A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 13, 1938, at 5:00 p.m.

PRESENT: Mr. Szymczak
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Renewal bonds, each in the amount of $40,000, executed on May 2 and May 12, 1938, respectively, by Oliver E. Foulk, Fiscal Agent, and Josephine E. Lally, Deputy Fiscal Agent, of the Board of Governors.

Approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Kimball and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, Mr. Walden, First Vice President of the Federal Reserve Bank of Richmond, Messrs. McCravey, Young, Stewart and Powell, Secretaries of the Federal Reserve Banks of Atlanta, Chicago, St. Louis and Minneapolis, respectively, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, Mr. McKinney, President of the Federal Reserve Bank of Dallas and Mr. Stewart, Chairman of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on May 10, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis
Letter dated May 12, 1938, to Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Receipt is acknowledged of your letter of May 6, 1938, with reference to the temporary assignment of three employees to the position of supervisor in the R. F. C. Department. In view of the circumstances set forth in your letter, the Board approves the continuation of the payment of salaries in excess of the maximum salary of $2,700 provided for this position in the personnel classification plan for an additional period of six months from May 1, 1938, to the following employees:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Annual Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>W. H. Holloway</td>
<td>Manager, Accounting Dept.</td>
<td>$4,300</td>
</tr>
<tr>
<td>E. A. Chancellor</td>
<td>Supervisor of Credits, Loan and Securities Dept.</td>
<td>2,880</td>
</tr>
<tr>
<td>E. A. Thaxton</td>
<td>Note Custodian, Loan and Securities Dept.</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Approved unanimously.

Memorandum dated May 11, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated May 5 from Mr. Day, President of the Federal Reserve Bank of San Francisco, which requested approval by the Board of changes in the personnel classification plans of the branches of the bank to provide for the creation of the new position of "Assistant Head of Department" in the Custodian Department of the Los Angeles and Portland branches, and "Collection Teller" in the Cash and Discount Department of the Spokane branch, and for the discontinuance
of the positions of "Head of Department", "Collateral Custodian" and "Custodian Clerk" in the Custodian Department of the Salt Lake City branch, "Head of Department" and "Custodian Clerk" in the Custodian Department of the Seattle branch, and "Custodian Clerk" and "Collection and Transfer Teller" in the Cash Custodian and Discount Department of the Spokane branch. The memorandum stated that the Federal reserve bank had also made minor revisions involving only the name of the department, the description of work, or the page number for nine other positions, and that a footnote was also added to the description of work for the position of "Cafeteria Attendant" at the Seattle branch stating that cafeteria attendants may be employed on a part-time basis and paid according to time actually worked. The memorandum also stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Letter dated May 12, 1938, to Mr. Young, Vice President of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of May 9, 1938, transmitting the request of the 'Citizens State Bank of Milford', Milford, Illinois, for permission, as required by condition of membership numbered 8, to purchase the banking property which it now occupies for a consideration not in excess of $7,500.

"In accordance with your recommendation, the Board interposes no objection to such investment in the amount indicated and it is requested that you advise the bank accordingly. It is suggested that you acquaint the bank with the Board's views, with which you are familiar, with respect to making adequate provision for depreciation in banking quarters owned."

Approved unanimously.
Letter to Honorable Robert F. Wagner, United States Senate, reading as follows:

"I have your letter of April 28, 1938, in which you state that representatives of the National City Bank of New York have conferred with you regarding the advisability of introducing legislation along the lines indicated in certain documents inclosed with your letter. The documents which you inclosed consist of a draft of a bill which would add certain paragraphs to section 25 of the Federal Reserve Act, together with memoranda in explanation of the purposes of the bill.

The principal provisions of the proposed bill may be stated in brief as follows:

"(a) A national bank operating a branch or agency in a foreign country would be liable upon deposits and other obligations of such branch or agency to no greater extent than a local bank would be liable under the laws of such foreign country on obligations of a similar character.

"(b) In the event of confiscation or destruction of the assets of such a foreign branch or agency by or by reason of the laws of such foreign country the liability of the national bank upon the obligations of the branch or agency would, at the instance of the bank, be reduced by the amount of the resulting loss as determined by the Comptroller of the Currency.

"(c) Within the meaning of these provisions, the laws of a foreign country include all acts and regulations of a political or military authority asserting governmental power in the territory of such branch or agency, whether or not recognized as a de facto or de jure government.

"(d) A national bank would be enabled to close any demand deposit account in a foreign branch or agency by offering to pay the depositor the balance in such account and thereupon remain liable only for the current value of the unpaid deposit balance as of the date of the offer.

"(e) When there exists a disturbed condition in the place in which a foreign branch or agency of a national bank is located which endangers the lives of its employees or property or renders it impracticable for it to continue to function, operations of such branch or agency may be suspended under certain conditions. Authority for such suspension of operations is now provided in regulations of the Board of Governors of the Federal Reserve System.

"(f) The Board of Governors of the Federal Reserve System is empowered to promulgate such regulations as it deems necessary to enforce compliance with the provisions of section 25 of the Federal Reserve Act."
"It seems reasonable that a national bank operating branches or agencies in foreign countries should have the protection which would be afforded by the provisions of the proposed bill, and the Board of Governors is in sympathy with the purposes of the bill, which are described in the memoranda inclosed with your letter. However, it is believed that it would be desirable to change the provisions of the bill in certain particulars.

"Under the bill as drafted, the depositors and creditors of the branch would suffer the entire amount of a loss resulting from a confiscation or destruction of assets of a foreign branch or agency and none of it would fall upon the bank's stockholders. It seems equitable that both creditors and stockholders should be required to share proportionately in such a loss, and it is suggested that the bill be changed accordingly.

"It is also observed that the bill as drafted does not apply to branches or agencies of corporations organized under section 25(a) of the Federal Reserve Act to engage in international or foreign banking or foreign financial operations. Although there is at this time only one such corporation in operation and its stock is owned by a national bank, nevertheless it would seem appropriate and consistent that the bill, if it is to be enacted, should be broadened to apply to any corporation organized under section 25(a) as well as to national banks. In this connection it may be stated that the substance of the third paragraph which would be added to the law by the bill as drafted is contained in the existing regulations of the Board, and these regulations apply not only to national banks but also to corporations organized under section 25(a).

"It also seems desirable that the depositors and creditors of a branch or agency in a foreign country should be placed on notice of the changes which would be made by this bill in their rights in dealing with such branch or agency, and accordingly it is suggested that provisions be incorporated in the bill so that these changes would not be effective until appropriate notice thereof has been given.

"For your convenience in considering this matter, the changes suggested above have been incorporated in a revised draft of the bill which is inclosed herewith, and you are advised that the Board of Governors favors the enactment of the bill as thus amended. The Board has not, of course, attempted to give consideration to any question of international relationships which may possibly be involved in the proposed bill."

Approved unanimously.
Letter dated May 12, 1938, to the United States Employees' Compensation Commission, Washington, D. C., reading as follows:

"This will acknowledge receipt of your letter of May 6, 1938, in which you outline certain considerations which influenced your Commission in reaching the conclusion that employees of the Board of Governors of the Federal Reserve System are not subject to the provisions of the Federal Employees' Compensation Act of September 7, 1916.

"While the Board of Governors of the Federal Reserve System is not disposed to raise any question at this time with regard to the conclusion of your Commission on this subject, we desire to state that the Board is not in accord with the view expressed in your letter that 'such Board can hardly be regarded as exclusively a branch of the Federal Government.' The Attorney General of the United States held in 1914 that the Federal Reserve Board (now the Board of Governors of the Federal Reserve System) is a board or establishment of the Government (30 Op. Atty. Gen. 306, 311), and his opinion, in the absence of a decision of a court of competent jurisdiction modifying it, would seem to be determinative on this point."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

Secretary.