

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, May 20, 1938, at 11:00 a.m.

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

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. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Bradley, Assistant Chief of the Division of Security Loans

There were presented telegrams to Messrs. Kimball and Post, Secretaries of the Federal Reserve Banks of New York and Philadelphia, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, and Messrs. Young and Sargent, Secretaries of the Federal Reserve Banks of Chicago and San Francisco, respectively, stating that the Board approves the establishment without change by the Federal Reserve Banks of New York, Richmond, Chicago and San Francisco on May 19, 1938, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Prior to this meeting there had been sent to each member of the Board a copy of a memorandum prepared under date of March

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21, 1938, by Mr. Dreibelbis summarizing the results of the surveys, made by him in response to the Board's request of January 19, 1937, of the legal divisions of the Federal reserve banks. The general conclusion drawn by Mr. Dreibelbis from the surveys was set forth in the memorandum as follows:

"The writer has had considerable difficulty in crystalizing his own views in the matter. Furthermore, in arriving at a decision, he has probably been influenced by existing situations and the same considerations which he feels have influenced some of the Presidents. In the light of his own experience both as a full-time employee and as an associate and member of an outside firm representing a Federal Reserve bank, it is his considered opinion that, as a matter of fundamental principle, the best interests of the Federal Reserve banks are probably served by full-time resident counsel. At the same time, as pointed out, there are banks in the System where replacement of the bank's present outside counsel, would, at least for the immediate future, produce inferior representation to that now being obtained. Consequently, his opinion with respect to desirability of the general policy is qualified to the extent that he believes that, in the absence of other considerations requiring immediate action, it should be adopted as an ultimate objective, to be put into practice as and when the occasion presented itself, rather than by precipitate action, which in some cases might produce undesirable results."

The consideration of the memorandum resulted in the suggestions (1) that the Board now adopt a general policy along the lines of the conclusion reached by Mr. Dreibelbis, (2) that each Federal reserve bank be advised that, before it makes any change in its present arrangement with respect to legal services, it is desired that the Board be consulted, and (3) that Mr. Dreibelbis continue his study and submit a further memorandum to

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the Board with regard to the cost of legal services at the respective Federal reserve banks, the memorandum to be submitted to the Personnel Committee for its use in making its recommendations to the Board.

Messrs. Morrill and Dreibelbis were requested to prepare, for consideration by the Board, drafts of a resolution and a letter to the Federal reserve banks which would give effect to the above suggestions.

Further reference was made to the memorandum prepared by Mr. Parry, Chief of the Division of Security Loans, under date of March 3, 1938, relating to the suggestion that Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, be amended to provide for lower margin requirements on "amortized investment purchase loans". The memorandum had been considered at the meetings of the Board on April 22 and 23, 1938. There was a discussion of the advisability of requesting the comments of the Federal reserve banks and the Securities and Exchange Commission on the amendment and the opinion was expressed that, until the members of the Board had formulated their own views as to its desirability, it would be preferable to withhold making such a request of the Federal reserve banks. It was felt, however, that in the meantime it would be helpful to obtain the views of the Securities and Exchange Commission for the assistance of the Board.

At the conclusion of the discussion the Division of Security Loans was requested to prepare, for consideration by

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the Board, a draft of confidential letter to the Securities and Exchange Commission asking for an expression of the views of the Commission with respect to the desirability of such an amendment.

Mr. Bradley left the meeting at this point.

There had been circulated among the members of the Board prior to this meeting a letter received under date of April 27, 1938, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, replying to the Board's letter of April 26, 1938, regarding the service of Mr. Norman P. Davis, Manager of the Security Loans Department of the bank, as a member of the board of education of the local school district at Pleasantville, New York. Mr. Sproul's letter stated that his letter of April 21, 1938 (which contained a suggestion of the directors of the bank that it might be desirable for the Board to give consideration to issuing a general ruling which would permit officers and employees of the Federal reserve banks to serve as members of school boards and boards of education), was perhaps not entirely clear; that it was contemplated by the directors of the bank that such service would be passed upon in each case by the senior officers and board of directors; and that it was the thought of the directors that the Board of Governors might consider issuing a ruling which would permit the final responsibility in such cases to rest with the board of directors of each

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Federal reserve bank who would consider each case arising at the bank upon its merits.

The suggestion was referred to the Personnel Committee for study and recommendation to the Board.

Mr. Ransom moved that St. George Holden, whose term as a Class C director of the Federal Reserve Bank of San Francisco will expire on December 31, 1940, be appointed Deputy Chairman of the bank for the remainder of the current year.

Mr. Ransom's motion was put by the chair and carried unanimously.

At this point Messrs. Thurston, Wyatt and Dreibelbis 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 May 17, 1938, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council held on May 17, 1938, were approved unanimously.

Memorandum dated May 17, 1938, from Mr. Paulger, Chief of the Division of Examinations, recommending that, for the reason stated in the memorandum, Mr. Edward S. Myers, a clerk-stenographer in the Division, be transferred from the office to the road force with the title of Assistant Federal Reserve

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Examiner, with official headquarters at Washington, D. C., and with no change in his present salary at the rate of \$2,100 per annum, effective at the opening of business on May 20, 1938.

In accordance with the above recommendation Mr. Myers was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Board of Governors of the Federal Reserve System, was designated as an Assistant Federal Reserve Examiner, with no change in his present salary at the rate of \$2,100 per annum, and his transfer to the road force was approved, all effective at the opening of business on May 20, 1938.

Letter to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to your letter of March 15, 1936 enclosing a copy of a letter which your bank addressed on March 14 to the Los Angeles office of the California Security Dealers' Association in reply to a number of questions concerning revised Regulation T. Your letter states that you would appreciate, with respect to your answers to these questions, either an expression of the Board's approval or advice from the Board with respect to corrections which should be made.

"The questions presented have been examined, and the answers which you have made to them have been carefully studied. It appears from this study that in all instances, except as noted below, the answer is one to which the Board need take no exception.

"Question 3, which relates to an assumed case in which a customer has bought securities in a special cash account, appears to contain a certain questionable implication, which appears to have been carried forward into the answer. The implication is that in any case in which the customer, regardless of accompanying circumstances, is permitted to settle for the purchase of given securities in the special cash account by using within the specified period the

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"proceeds of sale of other securities sold in the account, the broker or dealer has complied with the relevant provisions of the regulation. This implication is one which the Board could not endorse without qualification, since the application of the regulation to any given case might depend on the circumstances of the case, particularly circumstances bearing on the good faith of the creditor or that of his customer.

"It is noted that the last paragraph of your letter of March 14, 1938 to your Los Angeles correspondent, contains the following statements: 'A copy of this letter is being sent to the Board of Governors for any comment they may care to make. We shall be glad to pass on to you the content of any such comment insofar as it may alter the opinions expressed in this letter.' In this particular instance, this procedure seems likely to prove satisfactory, since it appears that none of the answers reviewed requires substantial alteration. As a general rule, however, it is believed that such statements should be avoided, since they go beyond the necessities of the situation and seem to commit the Board by indirection to endorsing the precise language of answers which the Board might prefer to give in a somewhat different way, or to answering questions which the Board might prefer to have stated more clearly or supported by more information. It is suggested, therefore, that your bank follow in such cases the practice that prevails at certain other Federal Reserve banks, stating merely that the answers express the view of the bank or of the officer signing the letter, unless the point has been precisely covered by a ruling or other advice from the Board. This practice appears to have served the purpose, in the usual case, of giving the correspondent as much assurance as he wants, and at the same time of permitting the Reserve bank, in any case in which the bank wishes advice from the Board for its own guidance, to submit the question to the Board, rephrasing the question if necessary to put it in proper form for such submission."

Approved unanimously.

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

"This refers to your letter of May 2, 1938, and inclosures, requesting a ruling of the Board as to whether

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"the acquisition by the City National Bank and Trust Company of Salem, Salem, New Jersey, as trustee, of an obligation of the President of such bank falls within the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O. In your supplemental letter of May 9, 1938, with regard to this question, you state that the President of the City National Bank and Trust Company of Salem gave his demand note dated November 14, 1930, in the amount of \$5,000, to an individual; that the payee of the note died on June 11, 1933; that the bank qualified as executor of the payee's estate on June 22, 1933; and that the bank became trustee of such estate on November 26, 1934, and is still serving in such capacity. You also state that such note has not been renewed or reduced since the original date.

"It appears that the bank acquired the obligation of its executive officer as trustee subsequent to June 16, 1933, but prior to August 23, 1935, at which time the statute in question provided a criminal penalty for a violation thereof. Therefore, the question whether a violation of such section is involved would depend upon the provisions of such section prior to the amendment of August 23, 1935. As stated in the Board's letter of January 16, 1936 (X-9449), any such violation is still subject to the criminal penalties and the determination of such question is a matter within the jurisdiction of the Department of Justice. As you know, the Board does not undertake to express opinions on apparent violations of criminal statutes. For your information, however, if the bank had acquired the note as trustee in the manner stated above after August 23, 1935, the Board would not interpose an objection to the transaction.

"The question whether, aside from the provisions of section 22(g) of the Federal Reserve Act and Regulation O, the note has been properly retained as an asset of the trust depends upon factors of which we are not fully advised and this letter should not be considered an expression of opinion on this point."

Approved unanimously.

Letter dated May 18, 1938, to the Presidents of all Federal reserve banks, except Dallas and San Francisco, (copies

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being sent to these two banks for their information only) reading as follows:

"At most of the Federal Reserve banks there are arrangements approved by the Board of Governors whereby small, personal loans may be made to employees in meritorious cases at reasonable rates of interest. These arrangements have been made at various times and under varying circumstances. Consequently, no uniformity exists among the banks as to how, if at all, funds available for such loans and the loans made therefrom are reflected in assets and liabilities as reported on Form 34 and as to whether earnings and losses on loans to employees are currently reported on Form 95 and Form B-9, respectively.

"It is believed that uniformity of accounting in this connection is desirable, and there is suggested for your consideration an arrangement under which loans to employees, upon proper authorization and within limits approved by the Board as to the aggregate amount of such loans outstanding at any one time, would be made from regular bank funds and reported on Form 34 in the item 'Sundry items receivable'. Earnings on such loans would be included currently on Form 95 in 'All other' earnings, and any losses reported in the monthly statement of profit and loss items, Form B-9.

"It will be appreciated if you will advise the Board whether you see any objections to the adoption at your bank of the arrangements and accounting procedure outlined above for handling loans to employees."

Approved unanimously.

Memorandum dated May 19, 1938, from Mr. Vest, Assistant General Counsel, recommending that there be published in the June issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the recent amendment to Section 22(g) of the Federal Reserve Act and with respect to the Board's recent rulings on the following subjects:

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Directors' Review of Actions of Trust
Department Committees of National Bank;
Nature of Trust Investment Committee
Minutes.

Approval of Acceptance of Trusts by
National Bank.

Renewal or Extension of Loans Made to
an Executive Officer of a Member Bank.

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. S. ...
Chairman.