

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, May 21, 1938, at 11:30 a.m.

PRESENT: Mr. Eccles, 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

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 May 20, 1938, were approved unanimously.

Memorandum dated May 17, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that George P. Hitchings be appointed on a permanent basis as an economic assistant in the Division, with salary at the rate of \$1,800 per annum, effective at the expiration of his present temporary appointment at the close of business on May 31, 1938, subject to his passing satisfactorily the usual physical examination.

Approved unanimously.

Letter to Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, reading as follows:

"In accordance with the recommendation contained in your letter of May 17, the Board approves a salary at the

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"rate of \$3,000 per annum for Mr. E. H. Weigel, as Assistant Vice President of your bank. It is noted that Mr. Weigel will be your bank relations traveling representative.

"Please advise the Board the date Mr. Weigel assumes his duties with your bank."

Approved unanimously.

Memorandum dated May 17, 1938, from Mr. Seitz, Assistant Counsel, with respect to the question whether the activities of an employee of the Wayne County Savings Bank, Honesdale, Pennsylvania, as an agent of the bank, in making daily collections of deposits from the homes or places of business of customers of the bank located in Waymart, Pennsylvania, which deposits are brought to the bank each day by the employee, constitutes the operation of a branch of the Wayne County Savings Bank within the meaning of Section 9 of the Federal Reserve Act and Section 5155 of the Revised Statutes. The memorandum expressed the opinion that such an arrangement did not amount to the operation of a branch within the meaning of the provisions of law referred to above and recommended that the Board's files in the matter be closed without further communication with the Federal Reserve Bank of Philadelphia.

Approved unanimously.

Letter to Mr. E. H. Gough, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of April 30, 1938, with regard to the applicability of section 22(g) of the Federal Reserve Act to a transaction involving an executive officer of a national bank. Your letter states that a national bank purchased from one of its affiliates a note of Mr.

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"John Smith, who is personal secretary to an executive officer of the national bank, and that the note in question was made for the accommodation of the executive officer and was guaranteed by such officer.

"Section 1(c) of the Board's Regulation O defines the terms 'loan', 'loaning', 'extension of credit', and 'extend credit' to include the acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety. Since, as stated in your letter, the national bank purchased the note upon which one of its executive officers is liable as guarantor, it seems clear that the transaction falls within the provisions of section 22(g) and Regulation O. The fact that the note in question was acquired by the bank from its affiliate does not affect this conclusion."

Approved unanimously.

Letter to Mr. G. J. Oppegard, Deputy Comptroller of the Currency,  
reading as follows:

"This refers to your letter of May 5, 1938, with regard to the applicability of section 22(g) of the Federal Reserve Act to a transaction involving an executive officer of a national bank. Your letter states that the wife of the president of the national bank, who is reputed to be highly responsible in her own right, gave her note in 1932 to such bank in the amount of \$105,000; that the proceeds of such note were credited to the account of her husband; and that he has paid interest since the date of the note at the rate of 1 per cent per annum. Since the previous examination, however, it appears that this note has been removed from the assets of the bank and the personal note of the president of the bank, in an identical amount, has been substituted therefor.

"While not specifically so stated in your letter, it is understood that the executive officer in question was not liable upon the note of his wife as maker, drawer, endorser, guarantor or surety, or otherwise obligated to the bank for the payment of the amount advanced on his wife's note. However, when the note of the executive officer was given to the bank in lieu of his wife's note, he became

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"legally liable to the bank upon the indebtedness. This transaction, by which the bank acquired the note of the executive officer, constitutes a loan or extension of credit by the bank as defined in Regulation O. Inasmuch as it is stated that his wife is reputed to be highly responsible in her own right, it does not appear that the substitution of the executive officer's note was for the protection of the bank, nor does the transaction appear to be within any other exception to the provisions of the regulation. It must, therefore, be regarded as falling within the prohibitions of section 22(g) of the Federal Reserve Act and Regulation O."

Approved unanimously.

Letter to Mr. Sidney K. Cooke, Vice President, Columbia National Bank, Kansas City, Missouri, reading as follows:

"Receipt is acknowledged of your letter of May 11, 1938, addressed to Chairman Eccles regarding the applicability of the Clayton Act to the services of yourself and Mr. Solomon Stoddard with the Manufacturers and Mechanics Bank and the Columbia National Bank, both of Kansas City, Missouri.

"Prior to the enactment of the Banking Act of 1935 the Board of Governors was authorized to issue individual permits, under certain circumstances, but, as you know, the Act itself now states what classes of relationships are prohibited and what classes are permitted, and gives the Board authority to permit additional classes by regulation only.

"Although the information contained in your letter is not sufficient to enable the Board to reach a definite conclusion, it seems doubtful whether the services of yourself and Mr. Stoddard would come within any of the permitted classes. You suggest that your relationships might come within the exception contained in section 2(d)(6) of the Board's Regulation L because of the difference in the class of business and the class of customers of the two institutions. However, in view of your further statement that 'both institutions accept deposits and make loans,' it seems probable that this exception would not apply, and in this connection your attention is invited to footnote 9 in the regulation.

"Copies of your letter and of this reply are being sent to the Federal Reserve Bank of Kansas City for its information,

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"and if you have any further inquiries regarding this matter, it is suggested that you communicate directly with that bank."

Approved unanimously.

Letter to Mr. Thomas H. Hodgson, Assistant Counsel, Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the proposed Federal Reserve Loose-Leaf Service upon which the Board's staff has been working since last summer. It is realized, of course, that the Interim Committee of the Presidents' Conference, of which you were Chairman, has performed the function for which it was created, but in view of the work which was done by the Committee and of your interest in the matter, we are addressing this letter to you, with copies thereof to Messrs. Earhart and Kimball, with a view to bringing to the attention of the former members of the Interim Committee certain difficulties which the staff has encountered.

"Substantial progress has been made in the preliminary work and so far the staff has adhered to the recommendations included in the Committee's report. In this process, however, we have been confronted with a number of mechanical difficulties which, it is believed, will impair the practicability of the Service; and we feel that, before proceeding further, consideration should be given to these various points and to the advisability of making such changes in the plan as will make it of greater service to the Federal Reserve banks when it has been placed in operation.

"It will be recalled that present plans for the Loose-Leaf Service contemplate that Volume I of the Service will contain the present printed editions of the Board's regulations, the Board's Digest of Rulings as already compiled and printed, and a division consisting of currently effective rulings and interpretations of the Board not contained in the Digest; and that Volume II of the Service will consist of a letter-sized ring binder in which the Federal Reserve banks will file S-letters containing rulings and interpretations issued by the Board after the inauguration of the Service.

"Under this arrangement, it will be necessary to consult several different divisions of the Service in order to determine the status of rulings of the Board on a particular question. Thus, a person using the Service must refer to

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"the Digest of Rulings, to the division containing interpretations not included in the Digest, and to the current mimeographed S-letters filed in Volume II. In addition, it is to be noted that instructions of the Board which may relate to the particular subject matter will not be included in the Service but will be merely referred to in the general index. It is believed that this situation will result in some confusion and inconvenience as well as considerable loss of time on the part of those using the Service. We feel that the practicability of the Service would be materially improved if it were so arranged that it would be necessary to consult only one division to ascertain the status of rulings on any particular point.

"Furthermore, it appears that the indexing of the Service will be complicated as the result of the bodily inclusion of the present pamphlet editions of the Board's twenty-two regulations and of the already printed form of the Board's Digest of Rulings. Since the printed page numbering of the regulations and the Digest could not be changed, Volume I of the Service will contain (counting the division of current interpretations not in the Digest) 24 separate series of page numbers. References in the index, therefore, will of necessity have to be preceded by symbols designating each of these series of page numbers. This situation will also result in mechanical difficulties in connection with the insertion of new material in the Service.

"As we understand it, the proposed Service contemplates that changes in the regulations will be currently reflected in Volume I but that the Digest of Rulings will not be changed except at periodic intervals of three years or less and, apparently, new rulings in Volume II will not be transferred to Volume I except at the time of such periodic revisions of the Digest. Consequently, it seems probable that the principal advantage of a loose-leaf system will, in a large measure, be lost and that a number of obsolete rulings will accumulate in the Service in the intervals between the periodic revisions.

"Careful thought has been given to these various points and certain modifications in the plan are now proposed which may eliminate or at least lessen the difficulties which it is felt are embodied in the present arrangement. We have reached the conclusion that it would be desirable to combine in one division under one topical arrangement the Digest of Rulings (eliminating obsolete rulings) and the division containing interpretations not in the Digest, together with all currently effective instructions of the Board. As a result,

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"the necessity for consulting several divisions of the Service, as well as the inconvenience of not having in the Service the texts of the Board's instructions, would be obliterated. In addition, it is believed that Volume II of the Service can be eliminated and that new rulings and instructions of the Board issued after the inauguration of the Service should be inserted in printed or multilithed form at the proper place in the Service as soon as possible after the promulgation of such rulings or instructions. This will tend to keep the Service up to date at all times and thereby fully utilize the advantages of a loose-leaf system.

"In order to simplify the matter of indexing and facilitate the insertion of new material in the Service, it is proposed that the regulations of the Board and the combined current rulings and instructions of the Board be printed with consecutive page numbers throughout the Service and that each paragraph of the regulations and each ruling and instruction be given a designating paragraph (¶) number or item (#) number, leaving suitable gaps in numbering between topical groups to take care of the insertion of new material.

"It is recalled that economy was one of the principal considerations which influenced the Interim Committee in determining upon the plan which it recommended. It is estimated, however, that the modifications here proposed would not increase the total out-of-pocket expense of establishing the service by more than \$2,000, and it is probable that the additional expense would be substantially less than this amount. It is believed that the greater practicability of the service which would result would be well worth the additional cost involved.

"It is understood also that one of the reasons which prompted the Interim Committee to recommend that the text of current instructions be not included was the desire to keep the size of the Service within reasonable limits. It has been found, however, that the number of currently effective instructions is relatively small and it is believed that their inclusion would not unduly increase the number of pages in the Service. While the Committee's report indicates that certain instructions are treated as confidential at some of the Federal Reserve banks, it is our thought that it might be possible for the banks which follow this practice to make some arrangement for the deletion of such confidential material from certain copies of the Service or possibly for restricting the list of those to whom the Service is distributed.

"Since the Presidents' Conference and the Board of

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"Governors are primarily interested in having a Service established which will be of the greatest practical benefit to the Federal Reserve banks and since the proposed modifications are not changes in the objective of the plan but merely mechanical changes which are designed to make the Service more useful, it is our thought that it is unnecessary to take the subject up again with the Presidents' Conference or obtain comments on the proposed changes from all of the Federal Reserve banks. However, in view of the fact that the recommendations were made by your Committee, we have felt it proper to acquaint you with the problems which have arisen and with the changes which we intend to make unless you should indicate material objections thereto. It will be appreciated, therefore, if you will advise us as soon as you conveniently can whether the modifications above outlined meet with your approval and that of Messrs. Earhart and Kimball."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.