

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 7, 1938, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom referred to recent newspaper articles relating to action by the Treasury in placing imported gold in the Treasury general account, thereby in effect sterilizing the gold, and inquired whether such action was being taken by the Department as a matter of policy. Chairman Eccles stated that the procedure was merely a continuation of a practice followed in the past and that, in view of the large working balances held by the Treasury at the present time, it made little or no difference whether gold imports were handled in this manner, since if gold certificates were issued to the Federal reserve banks in the amount of the imported gold it would only add to the Treasury balances at the Federal reserve banks and would not affect member bank reserves. If, however, Chairman Eccles said, the working balances of the Treasury fell so low that it would be necessary for the Treasury

6/7/38

-2-

to borrow funds to pay for the incoming gold it would appear that such action would be a matter of policy concerning which he would expect that the Treasury would consult with the Board. It was also pointed out that the Treasury had stated that the gold held in the general account as free gold could be used to meet gold exports without affecting the domestic monetary situation.

There was presented a letter addressed to the Board under date of June 6, 1938, by Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, in which he stated that the National Bureau of Economic Research had requested that a portion of the time of Mr. C. A. Sienkiewicz, Assistant Vice President of the bank in charge of the bank's Department of Statistics and Research, be made available during the next year and a half to supervise that part of the general study which has been undertaken by the Bureau on consumer financing which will cover the consumer financing activities of commercial banks. The letter inclosed a copy of an outline of the proposed study, including the part of the study which would be supervised by Mr. Sienkiewicz, and stated that President Sinclair had reviewed the matter with the board of directors of the bank, with the special committee of the board of directors which gave consideration to the request, and with representatives of the National Bureau of Economic Research; that he was convinced that the proposed study would be of value to the Federal reserve banks and the member banks; that if not more than one-half

6/7/38

-3-

of Mr. Sienkiewicz' time were made available for the purpose adjustment could be made without inconvenience or risk to the continuity and value of the research and statistical work now carried on by the bank, and that the board of directors of the bank had authorized President Sinclair to approve the proposed arrangement, if no objection were interposed by the Board of Governors, on the basis of the payment of salary to Mr. Sienkiewicz by the Federal reserve bank during the period that the arrangement would be in effect at the rate of \$5,000 per annum, the balance of \$1,500 of his annual salary to be paid by the National Bureau of Economic Research. The letter added that the arrangement would have to be somewhat flexible as to time and subject to control by President Sinclair and that the study would be carried on independently of the work of the bank.

The question of Mr. Sienkiewicz' participation in the proposed study was considered in the light of the enlarged program of the Board of obtaining through the Federal reserve banks and otherwise additional current business information and the development of the Department of Statistics and Research to carry on its share of this activity. Mr. Goldenweiser stated that, notwithstanding the fact that the Department of Statistics and Research at the Philadelphia bank was one of the best in the Federal Reserve System, he felt that the bank was in need of the full time services of Mr. Sienkiewicz and that it would not be desirable for him to undertake the supervision of the proposed

6/7/38

-4-

study. In response to an inquiry as to why the National Bureau of Economic Research had approached Mr. Sienkiewicz, Mr. Goldenweiser stated that he understood that the representatives of the Bureau were acquainted with Mr. Sienkiewicz and his work and felt that he would be a desirable person to undertake the work but that if he could not undertake the task the Bureau would undoubtedly be able to find someone else who would be qualified. It was suggested that if the Board's approval were given in this case it might be called upon to approve similar requests involving other officers of the Federal reserve banks and that since it did not appear that the services of Mr. Sienkiewicz were indispensable to the study it would not be desirable for him to serve.

In connection with the discussion, there was also presented a second letter written by President Sinclair under date of June 6, 1938, requesting approval by the Board of the appointment of Robert Russell Williams, Jr., as statistician in the bank's Department of Statistics and Research, with salary at the rate of \$2,520 per annum. The reasons given for the appointment were that one of the key employees in the office had suffered a serious eyesight impairment that might result in permanent disability and that there was need in the department for a competent individual who could develop to succeed to a responsible position and assist in meeting the current demands on the department.

At the conclusion of the discussion
Mr. McKee moved that the Board take the

6/7/38

-5-

position that the entire time of Mr. Sienkiewicz was needed at the Federal reserve bank and that it would not be desirable for him to undertake the proposed study.

Carried unanimously.

Mr. Ransom moved that the Secretary be requested to advise President Sinclair that the Board approves the appointment of Mr. Robert Russell Williams, Jr. as statistician in the Department of Statistics and Research of the Federal Reserve Bank of Philadelphia, with salary at the rate of \$2,520 per annum.

Carried unanimously.

Reference was made to the existing arrangement under which the books of the Board's Fiscal Agent are audited twice each year by the auditors of the Federal Reserve Bank of Cleveland and to discussions which had taken place with respect to the question of the desirability of having the audits made by an outside auditing firm. It was stated that the audits under the present arrangement were very thorough and entirely satisfactory, but that it was possible that such an audit might not be regarded as being entirely independent and that the position might be taken that the audits should be made by auditors who are not connected in any way with the Federal Reserve System. It was also stated that when the present arrangement was made originally it was the intention to rotate the work among the auditors of the nearby Federal reserve banks and it was explained why this plan had not been followed. It was agreed that the present plan for audits should be

6/7/38

-6-

continued in effect with the understanding that the work will be rotated and that arrangements will be made for having the audits during the period ending June 30, 1939, made by the auditors of a different Federal reserve bank.

At the conclusion of the discussion the matter was referred to the Personnel Committee for recommendation to the Board.

Mr. Ransom stated that yesterday afternoon Representative Goldsborough, Acting Chairman of the Banking and Currency Committee of the House of Representatives, called Mr. Wyatt on the telephone and requested that he and Mr. Ransom attend a hearing to be held by the Committee this morning on Bill H.R. 10845, introduced by Representative Steagall, to limit the liability of foreign branches of national banks. Representatives of the banks principally interested, Mr. Ransom said, were present at the hearing and after they had presented their views the Committee asked for the opinion of the Board, in response to which Mr. Wyatt presented for the record the letters addressed by the Board to Senator Wagner under date of May 13 and June 6, 1938, in connection with a similar bill, S. 4046, introduced in the Senate. Mr. Ransom added that the principal question before the Committee was whether the bill should provide for reasonable notice being given to the present depositors and creditors of foreign branches of the changes which the legislation would make in their rights and that the attorney for The Chase National Bank of the City of New York, who was present at the hearing, stated to Mr. Ransom, and had previously stated to Mr. Wyatt that his bank would oppose any legislation on this matter if it contained

6/7/38

-7-

a provision requiring notice, since notice was not required by the laws of the State of New York to be given by State banks operating foreign branches. In response to a request, Mr. Ransom said, he had advised the Committee that the Board would be glad to consider the question of notice and inform the Committee of its decision. Mr. Ransom further stated that, since leaving the hearing, information had been received by Mr. Wyatt that the bill had been opposed by certain members of the House Committee and, therefore, would not be reported out at this session of the Congress, and that it was understood that Senator Wagner had called an executive session of the Banking and Currency Committee of the Senate for tomorrow morning for the purpose of giving further consideration to the Senate bill.

Mr. Ransom then recommended that, in view of the statements made by the proponents of the bill at the hearing and after careful consideration of the question of notice, the Board take the position that the legislation should provide that if the banks wish to take advantage of the provisions of the law they would be required to give reasonable notice to those who were depositors and other creditors of their foreign branches at the time of the enactment of the legislation of the changes made thereby.

Mr. Ransom's recommendation was concurred in by the other members of the Board present and, upon motion by Mr. Szymczak, the Secretary was requested by unanimous vote to advise Messrs. Wagner and Goldsborough by letters to be approved by Mr. Ransom that the Board is of the opinion that the bill should provide that it would not affect the rights of existing depositors and other creditors of a branch or agency of a national bank in a foreign country until after reasonable notice thereof had been given to them.

6/7/38

-8-

Mr. McKee reported for the record that it had been decided that the application of The People's Bank of Potsdam, N. Y., Potsdam, New York, for membership in the Federal Reserve System, which was discussed at the meeting of the Board on December 10, 1937, should be held in abeyance pending receipt of another report of examination of the bank.

At this point Messrs. Thurston, Wyatt, Goldenweiser 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 June 6, 1938, were approved unanimously.

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

"This refers to your letter of May 10, 1938, in which you request advice on the question whether, in connection with the limitations on the discount of the paper of one borrower, which are contained in section 1(i) of Regulation A, it is proper to consider reserves for dividends payable in common stock as a part of capital and surplus.

"This question has not heretofore arisen under the provisions of Regulation A, and, accordingly, the Board has not previously had occasion to express any viewpoint concerning it.

"Section 1(i) of Regulation A reads as follows:

'(i) Limitations. - The aggregate of notes, drafts, and bills upon which any person, copartnership, association, or corporation is liable as maker, acceptor, indorser, drawer, or guarantor, discounted for any member bank shall at no time exceed the amount for which such person, copartnership, association, or corporation

6/7/38

-9-

"may lawfully become liable to a national bank under the terms of section 5200 of the Revised Statutes of the United States, as amended. The law forbids a Federal Reserve bank to discount for any State member bank notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State member bank in an amount greater than that which could be borrowed lawfully from such State member bank were it a national bank.'

"It will be noted that the limitations contained in both the first and second sentences of the above provision, which are derived from the provisions of section 13 and section 9 of the Federal Reserve Act, are based upon the maximum amount for which one person may lawfully become liable to a national bank. In determining such maximum amount, it is necessary to consider both the statute and the rulings of the Comptroller of the Currency in administering the law. Since the Comptroller has taken the position that reserves for dividends payable in common stock may not be considered as capital or surplus under the provisions of section 5200 of the United States Revised Statutes, such reserves should not be considered as a part of capital or surplus in determining the maximum amount of the borrowings or liabilities of one person to a member bank under section 1(i) of Regulation A.

"It may also be pointed out in this connection that, in order to comply with the spirit of the law, a Federal Reserve bank, in making advances to a member bank secured by paper eligible for discount, as well as in discounting paper for a member bank, should not acquire paper upon which one person is liable in an aggregate amount in excess of the limitations prescribed in section 1(i) of the regulation. On the other hand, however, in view of the fact that section 10(b) of the Federal Reserve Act was enacted subsequently to the provisions of the Federal Reserve Act relating to the amount of paper discountable for one borrower and in view of the purposes sought to be accomplished by the provisions of section 10(b), it is the Board's opinion that the limitations of section 1(i) of Regulation A and the provisions of law upon which they are based are not applicable to advances made under the provisions of section 10(b). It is assumed, of course, that a Federal Reserve bank, in extending credit in any case, will avoid the

6/7/38

-10-

"acquisition of an undue amount of paper upon which any one person is liable."

Approved unanimously.

Letter to Mr. Marshall R. Diggs, Acting Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of Mr. Gough's letter of May 26, 1938, with further reference to the applicability of section 32 of the Banking Act of 1933 to Mr. George D. Wray who is a director of the Commercial National Bank in Shreveport, Louisiana, and president of Motors Securities Company, Inc., Shreveport, Louisiana. Inclosed with Mr. Gough's letter were a copy of a letter from the National Bank Examiner, a statement of the financial condition of the Motors Securities Company as of April 30, 1938, a specimen copy of the collateral trust note issued by the Company, and a copy of the form of trust indenture under which the notes are issued. From these documents it appears that the pertinent facts are as follows:

"The Motors Securities Company acquires promissory notes secured by purchase money liens on motor vehicles and deposits them with the National Bank as trustee under a trust indenture. The Company then issues its collateral trust notes secured by the collateral thus deposited. The notes are the direct obligation of the Company. They are issued serially in denominations of \$500 to \$5,000, each series being in the sum of \$100,000. The specimen note which has been furnished is entitled 'Collateral Trust Note - Series Number 55'. It is payable to 'Bearer', but has blanks for the amount, the number of the note, and the date of the particular trust indenture under which it is issued. Each note bears a 'trustee's certificate' referring to the indenture. The collateral trust notes are sold directly to investors by the Company.

"The financial statement of the Company shows (in round figures) total assets of \$1,500,000. The largest item of liabilities is \$622,000 for outstanding collateral trust notes, and the remainder consists of \$300,000 capital, \$43,000 surplus, \$231,000 unearned service charges, \$231,000 notes payable, \$6,000 accounts payable (for insurance), and \$62,000 reserves.

"On the basis of these facts the case does not appear to be distinguishable in principle from that described in

6/7/38

-11-

"the ruling of the Board of Governors published in the Federal Reserve Bulletin for 1934 at page 485, which was referred to in the Board's letter to you of May 6, 1938 regarding this matter, and it therefore appears that the relationships described in the first paragraph of this letter are in violation of section 32 of the Banking Act of 1933.

"Copies of this letter and the previous correspondence are being sent to the Federal Reserve Bank of Dallas for its information, and it is suggested that if Mr. Wray desires to submit additional facts or arguments, he should communicate directly with the Federal Reserve Bank so that any additional information may be submitted to the Board with its comments."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. C. C.
Chairman.