

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 9, 1938, at 11:30 a. m.

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

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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 7, 1938, were approved unanimously.

Memorandum dated June 8, 1938, from Mr. Morrill recommending:

- (1) that Thomas B. Handley, guard, be promoted to the position of clerk in the building manager's office, with salary at the rate of \$1,600 per annum;
- (2) that Paul M. Phinney, clerk of the guard force, be promoted to guard, with salary at the rate of \$1,500 per annum; and
- (3) that John M. Costello, page, be promoted to the position of clerk of the guard force, with salary at the rate of \$1,200 per annum.

The recommendations were approved unanimously, to become effective immediately.

Memorandum dated June 7, 1938, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated June 2 from Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, which

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requested approval by the Board of a change in the personnel classification plan of the bank to provide for the creation of the new position of "Assistant Building and Custodian Mechanic" in the Service Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

The following resolution, prepared in accordance with the action taken at the meeting of the Board on May 20, 1938, was approved unanimously:

"RESOLVED, after consideration of the reports of the surveys of the legal divisions of the various Federal Reserve banks and the summary thereof submitted by the Board's Counsel and in view of the material differences in the practices of the banks with respect to the employment of counsel and the manner in which their legal work is handled, that the Board take the position, as a matter of general policy, that the legal work of each Federal Reserve bank should be conducted under the direction of a full time General Counsel who represents only the Federal Reserve bank; that, however, with respect to banks which do not now have such counsel the adoption of this policy should be regarded as an ultimate objective to be attained when circumstances permit without disturbing existing arrangements if otherwise satisfactory; and that the President of each Federal Reserve bank be advised that it is the desire of the Board to be consulted informally before the bank makes any change in the manner of conducting its legal work or the principal personnel engaged therein."

Pursuant to the above resolution the following letter to the Presidents of all Federal reserve banks was approved unanimously.

"You will recall that sometime ago one of the members

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"of the Board's legal staff made a survey of the legal division of your bank. Similar visits were made to all of the Federal Reserve banks and the information gathered during these visits has been reported to the Board. These surveys were made in order that the Board might be more fully advised with respect to the conduct of the legal work of the various Federal Reserve banks so that it might be in better position to meet its responsibilities in passing upon questions which are presented for its consideration from time to time.

"The Board has requested me to advise you that while it has no suggestions to offer at this time, it will appreciate it if, whenever circumstances develop in the future indicating the desirability of a change in the principal personnel or the manner in which the legal work is conducted at your bank, you will advise it informally before taking action."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Mr. Nichols' letter of June 6 requesting written consent to examine the Rahway Trust Company, Rahway, New Jersey, in order that examiners for the Federal Deposit Insurance Corporation may be enabled to make such investigation or examination as may be necessary in connection with the proposal to correct the unfavorable banking situation in Rahway through the recapitalization of The Rahway National Bank and the assumption by it of the established liabilities of the Rahway Trust Company, which would be facilitated by a loan from the Federal Deposit Insurance Corporation, was received today.

"In accordance with the request of Mr. Nichols, the Board of Governors of the Federal Reserve System hereby grants written consent, pursuant to the provisions of subsection (k) (2) of section 12B of the Federal Reserve Act, for the Federal Deposit Insurance Corporation to make such investigation or examination of the Rahway Trust Company as may be necessary to the appropriate disposition of the proposed plan."

Approved unanimously.

Letter to Mr. Austin, Chairman of the Federal Reserve Bank of

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Philadelphia, reading as follows:

"The Board of Governors of the Federal Reserve System decided some time ago that surveys should be made of the Bank Examination and Audit Departments at all of the Federal Reserve banks. There is attached a copy of a report of the survey of the Audit Department of the Federal Reserve Bank of Philadelphia recently conducted by the Board's Examiners Jones and Cagle. An additional copy of the report is inclosed for President Sinclair.

"While the survey indicates that the auditing function at the Federal Reserve Bank of Philadelphia in general is being performed in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington in November 1936, the conclusions set forth by the examiners indicate a number of matters which merit consideration.

"It will be appreciated if you and any of your directors whom you may designate and President Sinclair will review this report of survey and give the Board the benefit of your reactions to the matters referred to above and any other statements concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve banks. As the inclosed report refers frequently to the Auditors' recommendations and also contains other information of a confidential nature concerning the activities of the Audit Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, your directors and such of the bank's officers as you and President Sinclair deem advisable."

Approved unanimously.

Letter dated June 8, 1938, to Mr. Harrison, President of the

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Federal Reserve Bank of New York, reading as follows:

"This is in reply to your letter of May 17, 1938, regarding the question relative to reports of indebtedness of officers and employees which had arisen in connection with the recent examination of your bank, particularly your objection to the Board's examiner forwarding to the Board 'a tabulation covering the individual indebtedness of every officer of the bank, regardless of whether or not the indebtedness is subject to comment or criticism.'

"In the first place, I wish to clear up a possible misunderstanding. You state that you realize that Mr. Siems was 'probably acting under instructions from the head of the Examining Division of the Board', and elsewhere you object to having 'all of these reports copied and typed here, transmitted to Washington, and then again checked, reviewed and discussed by the Board's Division of Examinations, even though there is no possible basis for criticism in the Examiner's mind.' The submission of the information regarding indebtedness of each officer of the Federal Reserve banks is in accordance with existing instructions to the Board's examiner, which were specifically authorized by the Board.

"The Board has the responsibility both for the general supervision of the Federal Reserve banks and approval of the salaries of officers of the banks. While the bare fact of an officer's being in debt is no evidence of his capability, efficiency, or trustworthiness, the size and character of such indebtedness and the purpose for which it was incurred may be significant and is pertinent information to which those ultimately responsible for the supervision of the Reserve banks, as well as those immediately responsible for the selection and supervision of the official staff, are justly entitled.

"In view of your objections, however, the matter has been reviewed. Since, with the information submitted in connection with the recent examination of your bank, the Board now has an initial fund of such information for all banks, it does not appear necessary in the future to develop such complete information at each examination. Accordingly the Board's examiner will be instructed to continue his reviews of the reports of indebtedness, outside business activities, and ownership of bank stock referred to in the

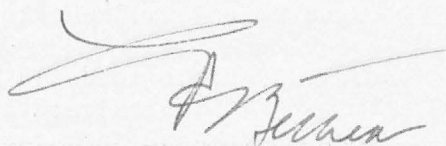
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"Board's letter S-8, but to discontinue submission to the Board of information regarding the indebtedness of each officer and to submit information with respect to such indebtedness only if it is unusual or out of the ordinary."

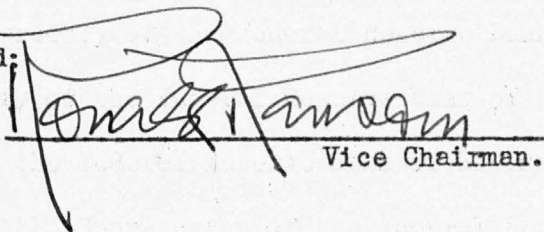
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.