

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 5, 1938, at 10:30 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Leonard, Assistant Chief of the
Division of Examinations

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Wagner, Vice President of the Federal Reserve Bank of Cleveland, Messrs. Young and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary 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 August 2, by the Federal Reserve Banks of New York, Cleveland, Chicago, Kansas City and San Francisco on August 4, 1938, and by the Federal Reserve Banks of Boston and St. Louis today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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At this point Mr. Thomas, Assistant Director of the Division of Research and Statistics, and Mr. Gardner, Senior Economist in the Division, joined the meeting.

Prior to the meeting there had been circulated among the members of the Board a memorandum prepared by Mr. Vest with respect to the question of compensation insurance for employees of the Board of Governors. The memorandum referred to the fact that the United States Employees Compensation Commission had held recently that the Board's employees were not entitled to the benefits of the United States Employees Compensation Act, and stated that, while the District of Columbia Employees Compensation Act appeared to be applicable in terms to all employees in the District of Columbia except those affected by the United States Employees Compensation Act, it was believed that the former was not applicable to the Board's employees in view of the 1933 amendment to Section 10 of the Federal Reserve Act. The memorandum also stated that, in connection with the question whether in these circumstances the Board would desire to provide any compensation benefits by way of insurance, the matter was canvassed by members of the staff with insurance companies with the results outlined in the memorandum. The memorandum stated further that the principal courses of action open to the Board appeared to be (1) the adoption of a policy of self-insurance, (2) the purchase of a workmens' compensation policy under the District of Columbia Employees Compensation Act (which was believed

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undesirable for the reasons stated in the memorandum), (3) the purchase of a policy offered by the Underwriters Conference companies which has a broader field of coverage than necessary and is prohibitive in cost, and (4) the purchase of a policy with the Continental Casualty Assurance Companies providing substantially the same benefits as are provided by the District of Columbia Employees Compensation Act, together with group life insurance of \$1,000 for each employee, upon condition that the total cost of the policy will be in the neighborhood of \$6,000 or less.

The matter was discussed, and it was agreed that the staff should conduct further negotiations with the insurance companies with a view to the submission of a report not later than October 1, 1938, and to determine particularly the possibility of obtaining compensation insurance without the necessity of purchasing group life insurance as a part of the contract.

In connection with a discussion of differences between the form of report of examination of national banks as recently approved by the Office of the Comptroller of the Currency and the form approved by the Board to be used in connection with the examination of State member banks, Mr. Paulger stated that the published agreement with respect to examination procedure provides that "the present practice will be continued under which net depreciation in the securities in Groups III and IV are classified as loss" and he presented the question whether the net depreciation should be calculated separately on each of these groups or whether the two groups should be taken together. In this

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connection, he stated that the Comptroller of the Currency and the Federal Deposit Insurance Corporation apparently propose to figure the net depreciation separately on each group.

It was agreed unanimously that the latter procedure should be provided for in the instructions issued to the Federal reserve banks.

Mr. Gardner then reviewed the various important factors which at the present time are affecting the flow of gold to the United States.

At this point Messrs. Thurston, Wyatt, Paulger, Dreibelbis, Vest, Leonard, Thomas and Gardner 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:

Letter to the board of directors of "The Springport State Savings Bank", Springport, Michigan, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

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"The Board of Governors of the Federal Reserve System approves the application of 'The Springport State Savings Bank', Springport, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of the Banking Department of the State of Michigan for his information.

"It has been noted that the bank has been granted trust powers but that such powers are not being exercised. Therefore, the application has been approved on the same basis as if the bank did not have trust powers and should it desire in the future to exercise trust powers, application for permission to do so should be made to the Board in accordance with the provisions of condition of membership numbered 1."

Letter to Mr. Young, Chairman of the Federal Reserve Bank of New York, reading as follows:

"Your letter of July 21, 1938, in answer to the Board's letter of July 6, 1938, suggests that in future examinations of the Federal Reserve Bank of New York, the directors who constitute the auditing committee, at the time, meet with the President and the Board's examiner when the examiner reviews orally the results of his examination, in order that the directors be directly informed by the examiner of whatever suggestions and criticisms he may have to make concerning the personnel and operations of the bank. The Board's examiner has been informed of your wishes in this respect and he will be pleased to discuss with the committee of directors, as well as with the President, the results of the examination. It is assumed, of course, that the President will arrange for the presence of members of the committee at the meeting.

"Your letter also suggests that the Board's examiner might well include in the copy of his report, which is made available to the directors, a statement that the substance of all material comments contained in the confidential section of the report has been communicated orally to the President of the bank and to a committee of the directors.

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"As has been the custom in the past, and as was stated in the Board's letter of July 6, 1938, major and minor matters affecting the operations of the bank will continue to be discussed with the appropriate officers and, as you now desire, with a committee of the directors. Major matters, or matters considered by the examiner of particular importance to the bank, will continue to be incorporated in the report going to the bank. The minor matters, or matters of less importance will not appear in the report if it is possible to clear them up satisfactorily by discussions with the appropriate officers, or the committee of the directors. However, for obvious reasons, it is not appropriate for the examiner to make a statement in the open section of the report to the effect that the substance of all material comments contained in any confidential section of the report has been communicated to the President of the bank or to a committee of the directors, and the Board feels that no such restraint should be placed upon its confidential relations with its examiner."

Approved unanimously.

Letter to Mr. Parker, First Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Receipt is acknowledged of your letter of July 28, 1938, relating to compliance by Lake Charles Bank and Trust Company, Lake Charles, Louisiana, and Rapides Bank & Trust Company in Alexandria, Louisiana, with the condition of membership which requires that a bank subject thereto deposit security with its trust department if trust funds are deposited by it in its own banking department or otherwise used in the conduct of its business.

"You point out that it is not clear that the Trust Estates Act recently enacted in Louisiana authorizes banks to pledge securities to secure funds of all types of fiduciary accounts and that, accordingly, it is questionable whether the above-mentioned banks yet can comply with the condition of membership if they continue to deposit certain funds in their own banking departments.

"You suggest that no action be taken at this time

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"but that, when the banks are next examined, your trust examiner make the investigation necessary to determine the exact nature of each fiduciary account being administered and that, on the basis of the information developed, you endeavor, through the cooperation of the banks, to obtain a ruling by the State authorities with respect to the effect of the pertinent provisions of the recent legislation. In view of the doubt which you express concerning the proper interpretation of the State law, as well as other circumstances involved, the Board has no objection to your handling the matter in the manner suggested by you."

Approved unanimously.

Letter to Mr. O. B. Rusness, Executive Vice President of The First National Bank, Moorhead, Minnesota, reading as follows:

"A reply to your letter of May 16, 1938, has been delayed, pending further consideration of the question of the applicability to inactive officers of the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O regarding loans to executive officers of member banks.

"It is noted that you were advised informally by the Deputy Comptroller of the Currency in September, 1933, that officers in an inactive status, such as the president and vice president of your bank, mentioned in your letter, are not executive officers of a member bank. Under the provisions of the Banking Act of 1933, in which the prohibition upon loans to executive officers of member banks was first contained, considerable confusion arose as to what officers were and what officers were not executive officers within the meaning of the statute. Accordingly, Congress reconsidered the matter and in the Banking Act of 1935 it amended the law so as to authorize the Board of Governors of the Federal Reserve System to define the term 'executive officer' and to prescribe such rules and regulations as it may deem necessary to effectuate the provisions of the law in accordance with its purposes and to prevent evasions of such provisions.

"Acting under this authority, the Board of Governors promulgated its Regulation O which became effective January 1, 1936. In the preparation of the regulation the

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"Board considered the question whether the regulation should be made applicable to inactive officers and reached the conclusion that it should be so applicable. Accordingly, section 1 of the regulation, a copy of which is inclosed, defines the term 'executive officer' so as to include inactive officers.

"As indicated in the clipping inclosed with your letter, it was the view of the Board that the exercise of undue influence in obtaining credit from member banks, which it was the principal purpose of section 22(g) of the Federal Reserve Act to prevent, may be present in the case of inactive or honorary officers; and the legislative history of the provisions of the Banking Act of 1935 on this subject indicates that it was intended by Congress that certain inactive officers should appropriately be regarded as executive officers. Moreover, persons having the title of executive officers in member banks are considered by the public as executive officers even though inactive, and the Board has not felt that it should give encouragement to the employment in an inactive capacity of persons having the title of executive officers and held out to the public as such.

"On several different occasions since the promulgation of its Regulation O the Board of Governors has re-examined this question, and since the receipt of your letter another study of the matter has been made. The Board feels, however, that for the reasons which have been given above and in the newspaper clipping inclosed with your letter, the law on this subject and the provisions of its Regulation O should be considered applicable to executive officers who are inactive as well as those who are active.

"In the circumstances, the president and the vice president of your bank, referred to in your letter, must be regarded as executive officers of the bank within the meaning of section 22(g) of the Federal Reserve Act and Regulation O."

Approved unanimously.

Memorandum dated July 27, 1938, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, recommending that, for the reasons stated in the memorandum, an additional amount of

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\$2,000 be added to the budget for the Division of Research and Statistics for printing and binding during the remainder of the current year.

Approved unanimously.

Memorandum dated August 1, 1938, from Mr. Thomas, Assistant Director of the Division of Research and Statistics, advising that the new edition of the book of desk charts on bank credit, money rates, and business activity, prepared in the Division of Research and Statistics, was ready to be duplicated, and recommending that, because of the many requests received for copies of the chart book, 1,000 copies of the book be printed for use by the Board and for sale at a cost of 50¢ per copy.

Approved unanimously.

Thereupon the meeting adjourned.

Chesley Morrie
Secretary.

Approved:

Frank Hanson
Vice Chairman.