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A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 12, 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. Dreibelbis, Assistant General Counsel
Mr. Thomas, Assistant Director of the
Division of Research and Statistics

There were presented telegrams to Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, Messrs. Young and Powell, Secretaries of the Federal Reserve Banks of Chicago and Minneapolis, respectively, Mr. McKinney, President of the Federal Reserve Bank of Dallas, 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 9, by the Federal Reserve Banks of Richmond, Chicago, Minneapolis, and Dallas, on August 11, 1938, and by the Federal Reserve Banks of Philadelphia and Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was made to a memorandum addressed to the Board by Mr. Ransom under date of August 10, 1938, transmitting a letter dated

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August 5 from Mr. Harrison, President of the Federal Reserve Bank of New York, to which were attached two memoranda prepared in the Foreign Information Division of the Research Department of the bank relating respectively to "Cuban Exchange Position" and "Export-Import Bank Loans to Cuba".

The letter read as follows:

"Following our telephone conversation of this morning, I am sending you a copy of two informal office memoranda prepared in the Foreign Information Division of our Research Department, one dated July 30 and the other dated August 2, 1938. They are, I think, self-explanatory.

"As I mentioned to you on the telephone, these two papers are not the result of any thorough study of the subject matter. They are more in the nature of a running comment on information which has come to our attention but which we have not endeavored to check. My purpose, therefore, in sending them to you is not to recommend any change in the policy of the Export-Import Bank, but rather to raise the question whether the issue of silver certificates in Cuba growing out of the arrangement made with the Export-Import Bank may not have economic implications far beyond what was originally intended. It also occurred to me that if the matters reported at the meeting of the National Association of Credit Men, held here on July 27, truly reflect conditions in Cuba, the closing of the Atlanta Branch in Havana might conceivably interrupt the process by which we suspect the Cuban Government is now issuing its silver certificates and possibly precipitate some sort of a breakdown which, in fact, should not in any way be blamed upon the Federal Reserve System."

Mr. Ransom stated that there was nothing in the memoranda or Mr. Harrison's letter which suggested to him the advisability of a reconsideration of the action taken by the Board on August 3, 1938, authorizing the Atlanta bank to discontinue the Havana Agency. Mr. Thurston stated that Chairman Eccles also felt that the information contained in the memoranda did not call for reconsideration of the Board's action.

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It was understood that Mr. Ransom's memorandum and attachments would be circulated among the other members of the Board following which the letter and memoranda would be referred to the Division of Research and Statistics for analysis and for any comments that the Division might wish to make.

There was then presented a letter to Mr. E. J. McAuley, Executive Vice President, First National Bank, Mobile, Alabama, reading as follows:

"This refers to your letter of July 30, 1938, presenting the question whether Mr. D. P. Bestor, Jr., who holds the position of Chairman of the Board of Directors of your bank would be considered as an executive officer of the bank within the meaning of section 22(g) of the Federal Reserve Act and the Board's Regulation O. You state that this office is purely an honorary one and was created just before the beginning of the year when Mr. Bestor advised the Board of Directors that his health was such that he could no longer direct the affairs of the bank as President. You also state that the Board of Directors on January 10, 1938, adopted the following resolution defining the duties of the Chairman of the Board:

'BE IT RESOLVED that the chairman of the board shall, when present, preside at all meetings of the Board of Directors and shall perform such other duties as may be, from time to time, assigned to him by the Board of Directors. In the absence of the chairman of the board the president shall preside at all meetings of the Board of Directors.'

"As you may know, the Banking Act of 1935 amended section 22(g) 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 Board considered the question whether the regulation should be made applicable to inactive or honorary officers and reached the conclusion that it should be so applicable. Accordingly, section 1 of the regulation, a copy of which

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"is inclosed, defines the term 'executive officer' so as to include inactive or honorary officers.

"The Board of Governors has consistently taken the position that it would not be justified in excluding inactive or honorary officers from the provisions of the law and the regulation for the following reasons:

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that the chairman of the board of directors of a member bank should appropriately be regarded as an executive officer for the purposes of the law in question even though he may be inactive;

(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

"In view of the above considerations, Mr. Bestor must be regarded as an executive officer within the meaning of section 22(g) and the Board's Regulation O."

Mr. McKee stated that, while he was willing to approve the draft of letter because it was in conformity with the position previously taken by the Board in similar cases, he felt that consideration should be given at some appropriate time to the definition of "executive officer" as contained in the Board's Regulation O, Loans to Executive Officers of Member Banks with a view to amending the definition as it applies to inactive or honorary officers.

The matter was discussed briefly and Counsel was requested to draft and to submit to the Board

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a revision of the definition which would provide for exemption from the regulation of officers of banks who were found by the Federal reserve bank on the basis of the facts in each case to be inactive officers, and an alternate provision which would exempt from the regulation inactive bank officers whose titles were preceded by the word "honorary".

The letter to Mr. McAuley was approved unanimously.

At this point Messrs. Thurston, Wyatt, Dreibelbis and Thomas left the meeting.

Thereupon the action stated with respect to each of the matters hereinafter referred to was taken by the Board, Chairman Eccles, who was not available when the meeting convened, participating:

Memorandum dated August 10, 1938, from Mr. Carpenter, Assistant Secretary, recommending that John N. Kiley, Jr., file clerk, be appointed Assistant Chief File Clerk, with salary at the rate of \$2,040 per annum; and that Misses Isabelle G. Noble and Margaret Johnston be employed on a temporary basis as file clerks for such period (possibly running into 1939) as may be necessary to complete the work of centralizing the files, each with salary at the rate of \$100 per month.

Approved unanimously, effective as of August 16, 1938.

Voucher, in the amount of \$4.20, submitted by the Welfare and Recreational Association of Public Buildings and Grounds, Incorporated, covering meals served in the dining rooms to guests of members of the Board and staff during the month of June. The voucher was submitted

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for approval for the reason that it covered two meals the assumption of the cost of which had not previously been authorized by the Board.

Approved unanimously.

Chairman Eccles reported that President Harrison of the Federal Reserve Bank of New York had stated over the telephone today that Mr. Knoke and Mr. Despres are writing a report on their European trip, that it will be complete by the time they land in New York the latter part of next week, and that he and they will bring the report to Washington the early part of the following week for discussion with the Board.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

Donald A. Johnson
Vice Chairman.