

8/31/38 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 31, 1938, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Chief of the Division of Examinations
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Gardner, Senior Economist of the Division of Research and Statistics
Mr. Piser, Senior Economist of the Division of Research and Statistics

Preliminary to the conference of the members of the executive committee of the Federal Open Market Committee with the Secretary of the Treasury on September 1, 1938, there was a discussion of factors which might be taken into consideration by the Treasury in determining the extent of the September 15 Treasury financing and the securities that might be offered at that time. After the discussion, Messrs. Goldenweiser, Gardner and Piser left the meeting.

Reference was made to a memorandum submitted by Mr. Vest, Assistant General Counsel, under date of August 17, 1938, pursuant to the request made at the meeting of the Board on August 12, 1938, that there be prepared drafts of amendments to Regulation O, Loans to

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Executive Officers of Member Banks, which would exempt from the regulation inactive or honorary bank officers. The memorandum had been circulated among the members of the Board for consideration prior to a meeting.

After a discussion of the four alternative drafts of amendments suggested in the memorandum, Messrs. Morrill and Dreibelbis were requested to prepare, for the consideration of the Board, a draft of a letter to the Federal reserve banks requesting an expression of their views with respect to certain of the proposed amendments and any suggestions that they might have to make in the light of conditions existing in their respective districts.

Mr. Ransom stated that he felt that the proposed amendment was contrary to the purposes for which Section 22(g) of the Federal Reserve Act was enacted, that it was his opinion that the amendment should not be made, and that should the matter come up for a vote during his absence he wished to be recorded as opposed to any modification of the present provision.

Consideration was given to a memorandum dated August 19, 1938, from the Division of Examinations which summarized the replies received by the Board to its letter of December 6, 1937, requesting the banks' views as to the desirability of amending Section 3(a) of Regulation L, Interlocking Bank Directorates Under the Clayton Act, to discontinue the permission granted by that section to a private banker or a director, officer or employee of a member bank to serve one Morris

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Plan Bank. The memorandum stated that six of the Federal reserve banks (Boston, New York, Philadelphia, Cleveland, St. Louis and Minneapolis) favored discontinuance of the permission, that Kansas City made no recommendation but apparently favored discontinuance of the permission, that Atlanta suggested that the permission be limited so as to apply only to institutions which did not receive demand deposits, and that the four remaining banks (Richmond, Chicago, Dallas and San Francisco) recommended that the Regulation be not amended. The memorandum also stated that the question involved was one of policy for determination by the Board and submitted a draft of an amendment for consideration in the event the Board should decide to amend the regulation. The memorandum stated further that the replies received from the Federal reserve banks indicate that conditions with respect to possible competition between member banks and Morris Plan banks vary considerably in the different Federal reserve districts, that it was evident, however, that the changes referred to in the Board's letter of December 6, 1937, had taken place to a considerable extent and apparently were continuing progressively, but that the number of existing relationships that would have to be terminated if the permission granted in Section 3(a) were revoked would be relatively small. The members of the Board present agreed that, while the number of interlocking directorates which would be affected by the amendment was not large at the present time, the increasingly competitive situation

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between member banks and Morris Plan banks made undesirable the creation of additional interlocking directorates of this type or the continuation of those now in existence.

Thereupon, Mr. McKee moved the adoption of the following resolution:

RESOLVED, That effective February 1, 1939, Section 3(a) of Regulation L be amended to read as follows:

"(a) Any private banker or any director, officer, or employee of a member bank of the Federal Reserve System may be at the same time a director, officer, or employee of not more than one cooperative bank, credit union or other similar institution;"

Carried unanimously, with the understanding that a letter to the Federal reserve banks advising them of the Board's action would be sent immediately.

Mr. Cagle withdrew from the meeting at this point and Messrs. Sneed, Chief of the Division of Bank Operations, and Leonard, Assistant Chief of the Division of Examinations, entered the room.

There was presented a telegram dated August 29, 1938, from President McKinney of the Federal Reserve Bank of Dallas, stating that the bank has been called upon for the first time to state the conditions under which it would accept deposits of securities referred to in chapter 7 of the amended Bankruptcy Act approved June 22, 1938; that it was not unlikely that the bank would be called upon to handle a large volume of this business; that it was felt that, in view of the

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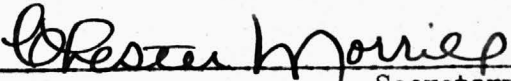
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volume and expensive character of the business the bank should establish reasonable charges therefor, and that advice was requested whether the Board would have any objection to the bank establishing a reasonable schedule of rates.

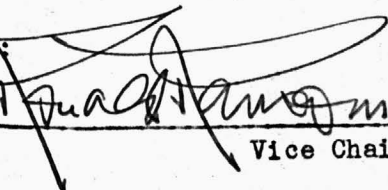
The matter was referred to Mr. Szymczak for recommendation to the Board as to the action to be taken.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 30, 1938, were approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.