

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, October 13, 1938, at 11:15 a. m.

PRESENT: Mr. McKee, Presiding
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Dreibelbis, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Chase, Assistant Counsel

ALSO PRESENT: Mr. John S. Sinclair, President of the Federal Reserve Bank of Philadelphia.
Mr. Joseph Wayne, Jr., President, Philadelphia Clearing House Association, and President, The Philadelphia National Bank, Philadelphia, Pennsylvania.
Mr. Howard A. Loeb, Chairman, Tradesmens National Bank & Trust Company, Philadelphia, Pa.
Mr. Marshall S. Morgan, President, Fidelity-Philadelphia Trust Company, Philadelphia, Pa.
Mr. C. S. Newhall, Chairman, The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pennsylvania.
Mr. A. D. Swift, President, Central-Penn National Bank, Philadelphia, Pennsylvania.
Mr. Parker S. Williams, Chairman, Provident Trust Company of Philadelphia, Philadelphia, Pennsylvania.

Mr. Sinclair referred to the position taken by the Board in its letter of August 10, 1938 (R-290), with regard to extending the time fixed by Congress for the termination of certain relationships under Section 8 of the Clayton Act and introduced the above named gentlemen

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from Philadelphia who it was stated wished to discuss the matter with the Board pursuant to Mr. Wayne's previous request for that purpose. Mr. Sinclair then distributed a mimeographed list, a copy of which has been placed in the Board's files, setting forth interlocking bank directorates involving banks located in Philadelphia and in places contiguous or adjacent thereto which are subject to the provisions of Section 8 of the Clayton Act and the Board's Regulation L.

Mr. Wayne stated that the position taken by the Board in this matter affects so many banks and is so important, as far as Philadelphia is concerned, that he and his associates were asking that the Board permit the continuance after February 1, 1939, of the existing relationships which are now prohibited after that date. Mr. Wayne stated that it was their feeling that such interlocking relationships should be eliminated gradually. He pointed out that at one time his institution, which is a consolidation of four large banks or trust companies, had seventy-two directors, that in 1935 as a result of a change in the law it had been necessary to reduce the number on his board of directors from fifty-two to twenty-five, and that the operation of the present prohibition under the provisions of section 8 of the Clayton Act would affect ten of the remaining twenty-five, some of whom had been serving continuously since 1926. He indicated that all of these directors were prominent men in Philadelphia, that it would be very difficult to replace them on the boards of directors of the respective banks,

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and that he thought that a wholesale termination of these interlocking relationships would be detrimental to the banking situation in Philadelphia.

Mr. McKee pointed out that the situation against which they were protesting had been brought about by operation of law and not by action of the Board. He also said that when the matter was considered by the Board the whole situation had been reviewed carefully and the conclusion reached that the position taken in the light of the legislative history and other factors was in accordance with the intention of the Congress.

Mr. Sinclair made the suggestion that each Philadelphia representative be allowed to make a statement regarding the situation with respect to his own institution and in particular with regard to individual directors serving on his board of directors who would be required to terminate their relationships with more than one Philadelphia bank or trust company.

The individuals comprising Mr. Wayne's group thereupon expressed their individual views which in substance were similar to the opening statement made by Mr. Wayne. It was stated, however, that for the most part the commercial banks in Philadelphia did very little trust business and on the other hand the trust companies did practically no commercial banking business. It was also stated that there was practically no competition between the various institutions

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and cases were mentioned wherein institutions having internal problems, some of which involved the loaning to them of large sums by other banks, had directors on their boards for the purpose of representing the other banks and assisting in working out the problems with which they were confronted. Other directors, it was said, were serving in similar situations primarily as a public service and they could not be replaced by men whose judgment and experience would be nearly as valuable to the banks. There was a feeling expressed that any wholesale termination of these interlocking directorates would have unfavorable repercussions on clearing house banks in Philadelphia, and that, while younger men were being developed and would in time be in a position to replace those directors who had served over a long period of years, the more able younger men almost without exception had all they could possibly do without accepting additional responsibilities at this time.

During the general discussion following the statements made by the Philadelphia bankers, Mr. Davis pointed out that the legislation had been on the statute books since 1935, that the action to be taken was not sudden and without warning as had been implied by some of Mr. Wayne's colleagues and Mr. Davis inquired what steps the banks had taken looking toward compliance with the law on February 1, 1939. Mr. Wayne and several of the others present said that no steps whatever had been taken, in the hope that something would turn up which would make it unnecessary to ask for the resignation of individual directors.

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Mr. Sinclair stated that he was not appearing on behalf of the Philadelphia clearing house banks, but that, speaking in his capacity as President of the Federal Reserve Bank of Philadelphia, he hoped that something could be worked out within the spirit of the law and the Board's Regulation L which would permit of an extension of time for at least a year. He said that, when the time came for directors to choose which directorships they would relinquish, they would invariably elect to remain with the largest and most important institutions, except in cases where special considerations were involved. Mr. Sinclair stated that, even though a wholesale discontinuance of service by directors who had served over a long period of years with the various institutions with which they were identified could be explained in the light of existing law, there would be reverberations in Philadelphia about which he would be seriously concerned.

In response to queries by Messrs. Szymczak and Davis as to what would be accomplished during the one year period, in the event an extension were granted, and whether representatives of the clearing house banks would not be back at the expiration of that time asking for another extension, Mr. Sinclair and several of the banks' representatives indicated the hope that legislation might be enacted during the interim which would take care of the situation.

Mr. Davis stated that in his opinion the banks would have made a much better record if they were in a position to show that they had

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taken steps during the three years which had elapsed with a view to complying with the law on February 1, 1939. He added that, if the effective date of the provision in question were extended, the action would have to be in terms which would not be limited merely to Philadelphia institutions. He also said that he felt that, if the Philadelphia representatives would study the statute and its legislative history, they would realize that they were asking the Board to do something which, as he saw it, was not in accord with the legislative intent of the Congress.

After a further discussion, Mr. McKee called attention to the fact that there was not a quorum of the Board present and that, therefore, even if the members were disposed to do so they could not take any action on the matter at this time. He stated, however, that the representations of the Philadelphia bankers would be brought to the attention of the absent members of the Board for their information and consideration. He added, with the approval of the other members of the Board present, that the Board would be glad to have Mr. Wayne and his associates, as well as Mr. Sinclair, as its guests at luncheon in the Board's dining room immediately following the meeting.

Thereupon the meeting adjourned.

Robert Morris
Secretary.

Approved:

John F. ...
Member.