

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 4, 1938, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Cagle, Assistant Chief of the Division of Examinations
Mr. Chase, Assistant Counsel
Mr. Crays, Federal Reserve Examiner

Reference was made to the action taken by the Board at its meeting on August 3, 1938, when it was determined that a letter should be sent to all Federal reserve banks stating that the Board saw no reason for extending the time fixed by Congress for the termination of certain interlocking bank directorates which, in the absence of action by the Board, would be prohibited after February 1, 1939, and to the action taken at the meeting on August 31 in amending subsection 3(a) of Regulation L, Interlocking Bank Directorates Under the Clayton Act, to

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terminate as of February 1, 1939, the permission granted by the subsection to a private banker or a director, officer or employee of a member bank to serve at the same time as a director, officer or employee of a Morris Plan bank.

There followed a discussion of the requests which had been received by the Board that Regulation L be amended so as to permit a director, officer or employee of a member bank who was lawfully serving as a director, officer or employee of one or more other banks on August 23, 1935 (date of approval of the Banking Act of 1935) to continue to serve such member bank and not more than one of the other banks after February 1, 1939. Mr. McKee stated that a number of bankers who would be affected by the amendment of subsection 3(a) of Regulation L adopted on August 31, 1938, had presented reasons why they felt it was desirable that the effective date of the amendment be extended in order that interlocking bank directorates involving Morris Plan banks might be adjusted to conform to the amended regulation. In this connection Mr. McKee referred to a letter presented under date of October 31, 1938, by representatives of the Morris Plan Bankers Association urging the amendment of Regulation L to permit a director, officer or employee of a member bank to serve also as a director, officer or employee of one Morris Plan bank.

The two suggested amendments had been discussed informally by members of the Board and the staff and the problem had been reviewed with the representatives of the Federal reserve banks who

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attended the Examiners' Conference on October 31, 1938. In these discussions it was recognized that the provisions of Section 8 of the Clayton Act did not apply uniformly to all banks and resulted in discrimination against member banks.

At this meeting the suggestion was made that the matter be taken up with the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency to ascertain whether they have any information to present to the Board which would have a bearing on the question whether or not action should be taken. There was also a discussion of the legislative history of the 1935 amendment to Section 8 of the Clayton Act and of the general theory underlying the Act and the question was raised whether a further extension beyond February 1, 1939, of relationships prohibited by Section 8 of the Clayton Act would be in accordance with the spirit of the Act. The further suggestion was made that the Board might amend Regulation L so as to effect an extension with a view to bringing to the attention of Congress the fact that the Act in its present form discriminates against member banks and therefore is a deterrent to membership in the Federal Reserve System and that the amendment was being adopted in order to permit the continuance of existing relationships in so far as the Board had authority to do so until Congress could give the matter further consideration. It was suggested that if such action were taken the permission granted by the amended Regulation L might

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be for a period of six months or possibly until the adjournment of the next session of Congress.

Chairman Eccles suggested that the staff be requested to analyze this proposal and to prepare a memorandum setting forth the proposed action and the reasons for and against it.

Chairman Eccles' suggestion was approved with the understanding that the study made by the staff would be prepared, if possible, in time for consideration at a meeting of the Board to be held on Monday, November 7, at 10:30 a.m.

There were then presented telegrams to Messrs. Kimball, Post, Young and Stewart, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Chicago and St. Louis, respectively, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Holden, Deputy Chairman of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of Kansas City on October 29, by the Federal Reserve Banks of St. Louis and San Francisco on November 1, by the Federal Reserve Banks of New York, Chicago and San Francisco on November 3, 1938, and by the Federal Reserve Bank of Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Mr. Crays left the meeting.

There was then presented a draft of letter to the Presidents of all Federal reserve banks, reading as follows:

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"Enclosed for your comments and suggestions are several copies of two proposed amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which have been prepared by the staff but not yet passed upon by the Board. Your comments should reach the Board of Governors if possible by Saturday, November 19, 1938. You should feel at liberty to consult confidentially with respect to these amendments anyone whom you may choose to consult, including any representatives of national securities exchanges or security dealers' associations.

"The principal purpose of the proposed amendments is to further clarify and liberalize certain provisions of the regulation which relate to transactions other than margin transactions. They would amend sections 4(c) Special cash account and 4(f) Special miscellaneous account.

"Changes in section 4(c) -- This section provides for handling without margin, on certain conditions, certain transactions which are defined as bona fide cash transactions. By the proposed amendment to this section, the broker who has sold securities for a customer (or the dealer who has bought securities from a customer) in a special cash account would no longer be required by the regulation to obtain the securities within a prescribed period. This change is coupled with the inclusion of a provision which makes it clear that to effect short sales for customers in the special cash account, instead of in a margin account, is not permissible.

"In addition, the broker who has bought securities for (or the dealer who has sold securities to) a bank, insurance company or other customer on terms such as are common in the trade with respect to bona fide cash transactions for or with institutional customers -- 'prompt delivery and payment on delivery' -- would be exempted from the requirement that he shall get payment, and consequently make delivery, within a prescribed period. The safeguard with respect to such transactions, in lieu of a prescribed time limit, would be the proposed description of the transactions, which has been designed, after considerable study, to exclude all transactions which are not readily identifiable as 'bona fide cash transactions' in the fullest sense of the term.

"After these two changes, the specific time limit

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"prescribed by section 4(c) would apply only to cases in which the customer is buying securities, and only to a limited class of these cases, with the consequence that many firms which do most of their business with institutions, carry no margin accounts, and extend very little credit, would no longer be much affected by Regulation T.

"Another change in section 4(c) would require that the understanding or agreement for prompt payment that must underly any purchase by the customer that is to be made in the special cash account shall contain a reasonable safeguard against the customer's reselling the security without his first having paid for it, and still another would make it clear that the prescribed time limit does not apply to transactions in exempted securities.

"Changes in section 4(f) -- One of the proposed new clauses to be added to section 4(f) would permit, under certain safeguards and with the approval of an appropriate committee of a national securities exchange, so-called 'capital contribution loans'. The other new clause would permit without restriction cash transactions, and certain other transactions of similar nature, between one broker (or dealer) and another. This would assume that such transactions need not be subjected, as they may be under the existing regulation, to the same restrictions as relations between each broker or dealer and his ordinary customers: for example, in case broker A (acting for one customer) makes a sale to broker B (acting for another customer), and B must obtain an extension of time within which to settle with his customer, A should not be required to get in addition an authorized extension of time for settling with B.

"You will understand that the foregoing explanations, although available for use by you in consulting with others, are not for publication."

Mr. Parry discussed briefly the reasons for the proposed amendments.

The draft of letter was approved unanimously with the understanding that when the letter is sent copies of the amendments will also be submitted to the Securities and Exchange Commission with a letter of transmittal requesting that

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the Commission consider the draft in confidence and submit to the Board in writing any comments, criticisms and suggestions that the Commission might care to present.

Reference was made to memoranda dated September 26 and October 10, 1938, prepared pursuant to action taken by the Board on August 5 with respect to providing compensation insurance covering employees of the Board of Governors. The memorandum of October 10 stated that if the Board should desire to purchase a compensation insurance policy it was the recommendation of the staff that the policy be obtained from the Liberty Mutual Insurance Company, Boston, Massachusetts, on condition that a mutually satisfactory form of policy be worked out. The memorandum of September 26, 1938, stated that, if the Board should wish to go further with negotiations for group life insurance for its employees, the next step would be the selection of a company so that a definite plan could be submitted to the employees in order to find out whether the requisite 75 per cent of all employees would desire the insurance.

Mr. Davis moved that the memoranda be referred to the Personnel Committee with power to act.

Carried unanimously.

Under date of August 26, 1938, President Harrison of the Federal Reserve Bank of New York, addressed a letter to Mr. Ransom with which was inclosed a memorandum prepared at the bank containing a

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review of the rearrangement of Germany's foreign debt service. The letter contained a statement to the effect that President Harrison was sending a copy of the memorandum to the Secretary of State calling his attention in particular to London newspaper editorials quoted in the memorandum. The letter had been circulated among the members of the Board and Mr. Ransom had attached a memorandum requesting that after the file had been circulated to all of the members of the Board it be placed on the docket for the purpose of discussing whether President Harrison's attention should be called to the Board's letter of January 24, 1938, (S-69) which requested that matters which it was felt should be taken up with a department or agency of the Government be first brought to the attention of the Board. During the ensuing discussion it was agreed that while it was clear that President Harrison had disregarded the request contained in the Board's letter in sending a copy of the memorandum directly to the Secretary of State, the particular incident involved was not an important one and that, inasmuch as considerable time had elapsed since it occurred, no action should be taken at this time.

There was also presented a memorandum dated September 16, 1938, from Mr. Ransom to which was attached a memorandum dated September 15, 1938, from Mr. Cagle listing loans, made by member banks to directors of Federal reserve banks and branches, which had been specially mentioned in reports of examinations of member banks. Mr. Cagle's

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memorandum listed loans to S. B. Sutphin, a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland, A. O. Stewart, Class C Director of the Federal Reserve Bank of San Francisco (since resigned), and A. E. Engbretsen, a director of the Portland Branch of the Federal Reserve Bank of San Francisco. Mr. Ransom's memorandum raised the question whether there should be a review of loans to directors of Federal reserve banks and branches appointed by the Board in addition to the loans referred to above. The memoranda had been circulated among the members of the Board at the request of Mr. Ransom with the understanding that the matter would be considered at a meeting of the Board.

During the course of a discussion it appeared that there was general agreement that in considering the qualifications of a proposed appointee the nature and extent of his obligations should be taken into account with a view to determining whether there were obligations or relations of a character which might impair his usefulness to the Federal reserve bank or branch in his capacity as a director, the thought being expressed that the question whether an appointment should be made would depend upon all the circumstances of each individual case.

At this point Messrs. Thurston, Wyatt, Paulger, Parry, Dreibelbis, Vest, Cagle, and Chase left the meeting.

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The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 2, 1938, were approved unanimously.

Memorandum dated November 2, 1938, from Mr. Noell, Assistant Secretary, recommending, with the concurrence of Mr. Morrill, that effective as of November 16, 1938, Miss Lida B. Sloan be appointed on a permanent basis as a stenographer in the Office of the Secretary, with salary at the rate of \$1,560 per annum, subject to her passing satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of "The Farmers State Bank of Fort Morgan, Colorado", Fort Morgan, Colorado, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, 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 Kansas City:

- "4. Such bank shall make adequate provision for depreciation in its banking house.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses in loans and discounts

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"aggregating \$3,656.85, as shown in the report of examination of such bank as of September 13, 1938, made by an examiner for the Federal Reserve Bank of Kansas City."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Farmers State Bank of Fort Morgan, Colorado', Fort Morgan, Colorado, 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 State Bank Commissioner for the State of Colorado for his information.

"It has been noted that the \$4,400 securities depreciation included in classification IV in the report of examination represented depreciation based on market values of certain Group 2 securities. Such classification, even though the bank agreed to charge off the depreciation upon receipt of instructions of the State Banking Department, which participated in the examination, is inconsistent with the uniform agreement regarding examination procedure and accordingly the elimination of the \$4,400 depreciation, even though classified as estimated loss in the report of examination, has not been required as a condition of membership."

Letter dated November 3, 1938, to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"Your letter to the Board of Governors of the Federal Reserve System dated October 20, 1938, enclosing a copy of a letter under the same date addressed to the Commissioner of Banking and Insurance for the State of New Jersey regarding the present condition of The New Jersey Title Guarantee and Trust Company, Jersey City, New Jersey, was received on October 31, 1938.

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"The situation with respect to the bank has been a matter of concern for some time and has been the subject of discussion between representatives of the Board and of the Federal Reserve Bank of New York and also between representatives of the Board and the Federal Reserve Bank and representatives of your Corporation. An examination of the bank was started last October 17 by the State Banking Department and examiners for the Federal Reserve Bank are participating in the examination.

"The Board appreciates your courtesy in supplying a copy of the letter to the Commissioner. In accordance with your request for any comments and suggestions as to the situation, the Board will be pleased to submit such comments and suggestions after a review of the situation and the current developments."

Approved unanimously.

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

"There is inclosed herewith a copy of a letter dated October 21, 1938, from the First National Bank of Morristown, Morristown, New Jersey, presenting the question whether a deposit of the Seeing Eye, Inc. may properly be classified by the national bank as a savings deposit under the Board's Regulation Q.

"It is our understanding that the Seeing Eye, Inc. is a non-profit charitable organization which depends largely upon donations and contributions for its funds. We also understand that this organization furnishes Seeing Eye dogs to blind persons at a small fraction of the cost of the dogs and their training.

"On the basis of the above understanding, it is our view that the Seeing Eye, Inc. may be considered as a philanthropic or charitable organization not operated for profit and that a deposit of such organization may be classified as a savings deposit if it conforms to the other requirements of section 1(e) of Regulation Q.

"Unless you know of some reason why the above ruling should not be made, it will be appreciated if you will advise the national bank that a deposit of the Seeing Eye,

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"Inc. may be considered as a deposit of a philanthropic or charitable organization not operated for profit and may be classified as a savings deposit provided it complies with the other requirements of the definition in Regulation Q."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. ...
Chairman.