

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, November 7, 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. Smead, Chief of the Division of Bank Operations
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

There were distributed to the members of the Board copies of a memorandum which had been prepared by the staff pursuant to the action taken at the meeting on November 4, 1938, with respect to the amendment of the Board's Regulation L, Interlocking Bank Directorates Under the Clayton Act, to (1) 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, and (2) extend

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the date of the termination of the permission granted by Regulation L to a director, officer or employee of a member bank to serve also as a director, officer or employee of a Morris Plan bank. The arguments presented in the memorandum for and against the amendment of the Regulation were discussed at length and alternative actions open to the Board were considered.

During the discussion Mr. Paulger stated that he had been advised that Mr. D. J. Needham, General Counsel for the American Bankers Association, was going to call at his office this afternoon and that he anticipated that Mr. Needham would request such information as the Board has with respect to the interlocking directorates which, in the absence of action by the Board, would have to be terminated on or before February 1, 1939. Mr. Paulger was advised that there would be no objection to giving Mr. Needham information with respect to the number of cases involved and, if requested, the names of directors and banks affected.

At the conclusion of the discussion Mr. Thurston and the representatives of Counsel's office present were requested to prepare, for consideration this afternoon, a draft of statement for the press based on action by the Board extending until September 1, 1939, the time limit upon the continuance of existing interlocking directorates.

At 1:15 p.m. the meeting recessed and reconvened at 2:30 p.m. with the following in attendance: Messrs. Eccles, Ransom, Szymczak,

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McKee, Davis, Draper, Morrill, Bethea, Carpenter, Smead, Goldenweiser, Thomas, Currie, Garfield, Gardner, Piser, Longstreet and Krost, and Mrs. Susan Burr Litchfield.

The representatives of the Division of Research and Statistics presented to the Board various aspects of the business and credit situation and possible future trends were discussed.

At the conclusion of the discussion Messrs. Currie, Garfield, Gardner, Piser, Longstreet and Krost, and Mrs. Susan Burr Litchfield left the room and Messrs. Clayton, Thurston, Wyatt, Paulger, Dreibelbis, Cagle and Chase joined the meeting.

Mr. Goldenweiser stated that in accordance with the request made by the Board on April 15, 1938, the Division of Research and Statistics had prepared a study on the subject of reserve requirements and that he would appreciate it if an opportunity could be afforded him to discuss the matter with the Board following which the written report would be submitted. It was understood that the matter would be placed on the docket for presentation by Mr. Goldenweiser at the first meeting of the Board at which all of the members are present.

Mr. Smead referred to the efforts which had been made to reach an agreement upon a uniform condition report form to be used by the Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency in calling for reports of condition of member banks, and stated that last week he had met with representatives of

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the other two agencies and that an agreement was reached on all of the points of controversy with the possible exception of one which was still under consideration by the office of the Comptroller of the Currency. He said that the representatives of the three agencies felt that the form was a substantial improvement and would be more easily understood by the public. He outlined the changes which it was proposed to make in the form of condition report and these changes were discussed briefly.

Mr. Davis stated that the suggestion had been made that Mr. Smead and representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency attend the meeting of the National Association of State Bank Supervisors to be held at Hot Springs, Arkansas, on November 10, 11 and 12, 1938, for the purpose of meeting with the Association's committee on condition reports with a view to working out a uniform report form which could be used by State supervisors as well as by the three Federal agencies. Mr. Davis recommended that Mr. Smead be authorized to go to Hot Springs for the purpose referred to with the understanding that he would be authorized to agree to such changes in the report as he thought best for the purpose of obtaining uniformity in the form used by all of the supervising agencies.

Mr. Davis' recommendation was approved unanimously.

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There was then read a draft of a press statement prepared by Mr. Thurston and the representatives of the legal division in accordance with the action taken at the meeting this morning and a further discussion ensued of possible actions by the Board with respect to the amendment of Regulation L, Interlocking Bank Directorates Under the Clayton Act. Consideration was also given during the discussion to an alternative draft of press statement prepared by Mr. Clayton which would extend the permission granted by the Board for the continuation of interlocking directorates until July 1, 1942, the date upon which all insured banks with deposits of \$1,000,000 or more must become members of the Federal Reserve System.

At the conclusion of the discussion of the proposed press statements, Mr. McKee moved the adoption of the following resolution:

RESOLVED, That Regulation L, Interlocking Bank Directorates Under the Clayton Act, be amended, effective immediately, as follows:

(1) By adding the following after the semicolon at the end of Section 3(a) thereof:

"and any private banker or any director, officer, or employee of a member bank of the Federal Reserve System who is lawfully serving as a director, officer, or employee of a Morris Plan bank or similar institution on January 31, 1939 may continue such service until August 1, 1939;"

(2) By changing the period at the end of Section 3 to a semicolon and adding at the end of that section a new subsection "(e)" as follows:

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"(e) Any director, officer, or employee of any member bank of the Federal Reserve System who, on August 23, 1935, was lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company and whose services in such capacities have been continuous since such date, may continue, until August 1, 1939, to serve such member bank and not more than one other such bank, banking association, savings bank, trust company or private banker."

Mr. McKee's motion was put by the chair and carried unanimously, with the understanding that the Federal reserve banks would be advised of the Board's action by telegraph and that a statement for the press with respect to the action would be prepared and released to the press after having been approved by Mr. Ransom.

(Secretary's Note) The statement released to the press after having been approved by Mr. Ransom, in accordance with the above action, for publication in the morning papers of November 10, 1938, read as follows:

"The Board believes that the principles of Section 8 of the Clayton Act, which relate to interlocking bank directorates, are in the public interest and should be applied to all classes of banks. The law is now discriminatory in that it applies only to cases involving member banks of the Federal Reserve System or private banks. The Board does not believe that there should be discrimination in any respect among classes of banks subject to Federal authority.

"In view of the fact that less than a month will elapse between the convening of the new Congress and February 1, 1939, on which date certain existing relationships would terminate, the Board has exercised its discretion under the law, as to such relationships involving not more

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"than two banks, to extend this time to August 1, 1939. This action was taken for the purpose of calling the matter to the attention of Congress when it convenes, with a recommendation that the existing discrimination between member banks and non-member banking institutions be removed so that the provisions of the law will apply alike to all banks under Federal authority."

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

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 5, 1938, were approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This will acknowledge receipt of your letter of October 28 and attached list showing the salary for each officer of your bank as approved by the Board of Directors of your bank for the year 1939, subject to the approval of the Board of Governors.

"The salaries as shown in the above mentioned list will be reviewed by the Board of Governors and if the Board desires to take up any question with respect thereto with you before formal action is taken by your Directors at their first meeting in January 1939, it will communicate with you with respect thereto before the end of this year."

Approved unanimously.

Letter to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

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"This refers to your letter of October 14th requesting advice as to whether anything further need be done to require the elimination by The Commercial Bank of Iron Mountain, Iron Mountain, Michigan, of a loan which may have been made in violation of section 11(m) of the Federal Reserve Act.

"It is understood that in January 1937 the directors of The Commercial Bank approved a line of unsecured credit to M. J. Bacco in the amount of \$40,000; that in April 1937 Mr. Bacco borrowed \$40,000 and voluntarily offered to put up as collateral certain shares of stock; that the member bank feels that Mr. Bacco is entitled to an unsecured line of \$40,000 but felt that it was not good business to decline to accept his voluntary offer of collateral; and that such loan was not made for the purpose of carrying or trading in stocks or bonds. You have advised that the member bank states that if directed to do so it will return the collateral to Mr. Bacco and carry the line unsecured. On the basis of these facts and without prescribing a general rule applicable to all cases, the Board feels that your bank would be justified in not requiring the bank to eliminate the loan or the collateral."

Approved unanimously.

Letter to Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of October 25, 1938, asking whether the Board has any objection to the proposed expenditure of an amount not to exceed \$60,000 for alterations at the Jacksonville Branch. It is noted that the proposed expenditure has been authorized by your board of directors subject to the approval of the Board of Governors, and approved by the directors of the branch; also that prior thereto the executive committee went fully into the matter and recommended that the directors authorize the expenditure.

"In view of the circumstances outlined in your letter the Board will interpose no objection to the expenditure of not to exceed \$60,000 for alterations at the

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"Jacksonville Branch of the Federal Reserve Bank of Atlanta."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. S. ...
Chairman.