

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, November 25, 1939, at 11:30 a.m.

PRESENT: Mr. Szymczak
Mr. McKee
Mr. Draper

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

Letter to "The First National Bank of Alger County, at Munising", Munising, Michigan, reading as follows:

"This refers to the resolution adopted on June 27, 1939, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or

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similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve banks, except Philadelphia, reading as follows:

"In a recent letter Mr. McCabe, Chairman of the Federal Reserve Bank of Philadelphia, suggested that at the forthcoming meeting of the Chairmen of the Federal Reserve banks a representative of the Board discuss the questions which remained unanswered at the conclusion of the Chairmen's Conference on January 30, 1939.

"From time to time consideration has been given to what might be said in response to the various questions raised at the previous meeting and it was felt that most, if not all, of these questions would be reviewed in the course of the discussion of the items which have been placed on the proposed program for the forthcoming meeting. However, with the thought that the Chairmen of the Federal Reserve banks would like to have for consideration prior to the December meeting a statement relating to these questions, the Board has prepared such a statement and a copy is being sent to you with this letter.

"No changes have been suggested in the program for the Chairmen's Conference which was sent to you with Mr. Morrill's letter of November 2."

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to your letter of November 14, 1939, and enclosures relating to the applicability of the Clayton Act to Mr. John G. Candor,

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who is a director of the West Branch Bank and Trust Company, Williamsport, Pennsylvania, and of the Savings Institution of the City of Williamsport.

"You enclosed a letter dated November 13, 1939, addressed to you by Mr. Peter G. Cameron, President of the Trust Company, and copies of previous correspondence between Mr. Cameron and Mr. Hill, Vice President of your Bank, relating to this matter, which indicate that the only exception under which Mr. Candor could continue to serve both institutions after February 1, 1940, is that contained in paragraph (6) of section 8 of the Clayton Act relating to an institution 'not engaged in a class or classes of business in which such member bank is engaged'. As pointed out in Mr. Hill's letter of September 19, 1939 to Mr. Cameron, both institutions are engaged in receiving time deposits and in making real estate loans, and therefore it appears that this exception is not applicable.

"Before section 8 of the Clayton Act was rewritten by the Banking Act of 1935, the Board of Governors was authorized to issue individual permits when in its judgment it was 'not incompatible with the public interest'. If this procedure were still in effect, the Board would be in a position to give full and sympathetic consideration to all of the facts and circumstances surrounding this case, including the nature of the clientele of the two institutions, the general scope of their business activities, the personal qualifications of the directors involved and any other circumstances which might have a bearing upon the question whether the interlocking relationship was not incompatible with the public interest. However, you are familiar with the experience of the Board in applying this indefinite standard. The procedure was found to be unworkable and extremely unsatisfactory not only from the standpoint of the Board but more particularly from the standpoint of the directors, officers and banks affected since no one could know whether his services were legal until he had

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furnished full information and submitted the matter to the discretion of the Board in Washington. It was for this reason that the statute was revised in 1935 so as to prescribe a set of definite rules. Of course, no rules of general application can produce uniformly perfect results, but the Board's experience in administering this statute has shown beyond any doubt that definite rules produce far fewer unsatisfactory results than a standard which requires a long-range appraisal of the facts in each case.

"The Board therefore believes that Mr. Hill's letter of September 19 correctly describes the situation and that the statute would not permit of a different conclusion from that which he has expressed."

Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

APPROVED:



Member.