

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 28, 1939, at 10:30 a.m.

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

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. Goldenweiser, Director of the  
Division of Research and Statistics  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the  
Division of Examinations

There was presented a draft of a reply to a letter dated November 10, 1939, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, advising that the board of directors of the bank, effective November 16, 1939, had appointed R. G. Rouse a Vice President, Silas A. Miller an Assistant Vice President and Marcus A. Harris a Department Manager, of the Federal Reserve Bank of New York, and, subject to the approval of the Board of Governors, had fixed their salaries at \$17,500, \$9,000 and \$5,000 per annum, respectively. The draft of reply stated that the Board approved the proposed salaries for Messrs. Miller and Harris but had deferred

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action on the proposed increase for Vice President Rouse as it was the Board's opinion that, in all of the circumstances, it would be well to withhold action on the increase until the annual submission of salary recommendations is made by the Federal Reserve Bank of New York as of April 1, 1940. The draft of reply had been circulated among and approved by the members of the Board but, at the request of Mr. Ransom, it was placed on the docket for further consideration at this meeting. The proposed increase for Mr. Rouse was discussed in the light of the responsibilities which will be placed upon him as Vice President in charge of open market operations and as manager of the System open market account and of the further fact that he had been in the employ of the bank less than five months, having come to the bank from the Guaranty Trust Company at a substantial increase in salary.

At the conclusion of the discussion, upon motion by Mr. Szymczak, it was voted unanimously to advise the New York bank that the Board approves the proposed salaries fixed by the directors for Messrs. Miller and Harris but is deferring action on the proposed salary fixed for Mr. Rouse.

In taking this action it was understood that Mr. Rouse's salary would be given further consideration at the first meeting of the Board at which all of the members are present.

Reference was made to the recommendation submitted by the

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Federal Advisory Council at its meeting with the Board of Governors on November 21, 1939, that the volume of sales from the System open market account be promptly expanded in an orderly manner.

It was agreed unanimously that the recommendation, together with the resolution adopted by the Federal Advisory Council on October 9, 1939, on the same subject, should be sent to the members of the Federal Open Market Committee for consideration.

Further consideration was given to the program for the meeting of Chairmen of the Federal Reserve banks which is scheduled for December 5, 1939, and to the suggestion that had been made that it might be found desirable to hold an evening session on December 5 inasmuch as one of the chairmen had advised that he would have to leave Washington that night.

It was agreed unanimously that the matter should be referred to Messrs. Szymczak and Davis for recommendation to the Board at the meeting on Friday, December 1, 1939.

Inasmuch as the program of the meeting does not indicate specifically who will lead the discussion on the topics indicated below, members of the staff were designated for that purpose, as follows:

Discount rates of Federal Reserve banks.	Mr. Goldenweiser
Collection and analysis of current business information by the Federal Reserve banks and the Board.	Mr. Thomas

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Relations between auditors of Federal Reserve banks and the boards of directors, including the value of current reports and discussions thereof.

Mr. Paulger

Usefulness to directors of Federal Reserve banks of information contained in reports of examination of Federal Reserve banks made by examiners of the Board of Governors. Mr. Paulger

Mr. McKee referred to the consideration which had been given by the staff to a procedure to be followed in connection with possible violations by uninsured banks of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. He stated that recently Mr. William R. White, chairman of the executive committee of the Association of State Bank Supervisors, was in Washington and the matter had been discussed with him, at which time he (Mr. White) had requested that he be furnished with a memorandum for use by his committee in connection with the consideration of a possible procedure that might be followed. Mr. McKee also said that such a memorandum had been prepared, which was substantially the same as the Board's letter of March 16, 1939, (S-149) to the Federal Reserve banks with respect to the procedure agreed upon by the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation for handling possible violations of the regulation by insured banks and that as Mr. White would be in Washington on Friday

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of this week for a meeting of his committee it would be his (Mr. McKee's) recommendation that Mr. Paulger be authorized to send the memorandum to Mr. White, and, with the appropriate representatives of Counsel's office, and the Division of Security Loans, to have such further discussions with Mr. White as may be found to be desirable in the circumstances.

Mr. McKee's recommendation was approved unanimously.

At this point Messrs. Thurston, Wyatt, Smead, Goldenweiser, Dreibelbis and Leonard left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 27, 1939, were approved unanimously.

Letter to the "South Philadelphia National Bank of Philadelphia", Philadelphia, Pennsylvania, reading as follows:

"This refers to the resolution adopted on May 11, 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

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"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 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 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 Mr. Preston Delano, Comptroller of the Currency,

reading as follows:

"Under date of February 18, 1936, the Board sent to you a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Chicago dated January 31, 1936, in connection with the question whether the Continental National Bank and Trust Company of Chicago, Illinois, is required by the provisions of section 19 of the Federal Reserve Act and the Board's Regulation D to maintain reserves against so-called 'uninvested trust funds'. The last paragraph of the Board's letter to the Federal Reserve Agent reads as follows:

"After a consideration of the character of the uninvested trust funds in question and of all the other circumstances of the case in the light of the applicable provisions of the law and of the Board's Regulation D, the Board of Governors has reached the conclusion that the maintenance of reserves by the bank against such uninvested trust funds is not required.

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'Please advise the Continental National Bank and Trust Company accordingly.'

"It has come to the Board's attention that the Continental National Bank and Trust Company of Chicago, Illinois, continues to report such uninvested trust funds as deposit liabilities in statements of condition submitted and published in accordance with the provisions of Section 5211 U.S.R.S., and that such uninvested trust funds are included in statistics of deposits of national banks as shown in all but one of the tables appearing in the 'Abstract of Reports of Condition of National Banks' issued by your office following each call for condition reports of national banks.

"It is not the practice of the subject bank to submit to the Federal Reserve Bank of Chicago semi-weekly reports of deposit liabilities for reserve computation purposes, as is done by all other member banks in Chicago; and, in view of the decision of the Board expressed in its letter of January 31, 1936, and in all the circumstances, it would seem preferable for the Continental National Bank and Trust Company not to show the uninvested trust funds in question as deposits in its condition reports but to include them in 'Other liabilities', with a note reading 'Uninvested trust funds'. Such a note is now shown following the caption of item 13, 'Demand deposits of individuals, partnerships, and corporations', of the bank's condition reports. It will be appreciated if you will give consideration to the desirability of so instructing the member bank and if you will advise the Board of your action in the matter."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Vice Chairman.

Assistant Secretary