

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 25, 1940, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Szymczak  
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. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Gardner, Senior Economist in the Division of Research and Statistics  
Mr. Chase, Assistant Counsel

Question was raised with respect to the action to be taken by the Board on the numerous inquiries being received as to the possibility of a further extension of the permission granted by subsections 3(a) and 3(e) of the Board's Regulation L, Interlocking Bank Directorates Under the Clayton Act, under which a private banker or any director, officer, or employee of a member bank could continue to serve one other bank. Chairman Eccles suggested that, as there had been no important change in the situation since the matter was considered by the Board on January 19, 1940, the Board should take the position that, in view of the fact that the President vetoed a bill which would have extended

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until February 1, 1944, the period during which lawfully existing relationships might be continued and Congress had taken no further action in the matter, there was nothing the Board should do at this time.

In connection with this matter Chairman Eccles stated that Senator Wagner called him on the telephone yesterday afternoon and that it appeared doubtful that the President would take the matter up with the Board.

In the discussion which followed Mr. Wyatt referred to conversations which he had had with Mr. McKee on the question of the advisability of the Board amending Regulation L to permit the continuation of interlocking directorates in cases where (1) an individual had become a director or officer of another bank as a part of a rehabilitation program, (2) an individual is serving two nonmember banks and one or both banks join the Federal Reserve System, (3) a director, officer, or employee of a bank in the business section is serving a small neighborhood bank in an outlying district of the same city, or (4) an officer, director, or employee of a member bank serves a Morris Plan company which receives no deposits repayable on demand and makes no loans except loans to individuals to be paid in installments. Reference was also made to the question whether the permission granted in the Board's regulation to a director, officer, or employee of a member bank to serve a Morris Plan bank should be extended for a

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further period for the reason that persons affected had been on notice for only a little over a year of the termination of the permission. It was felt, however, that while arguments could be advanced for making these changes, the Board's Regulation L in the form in which it will be in effect on and after February 1, 1940, is in substantial agreement with the intent of Section 8 of the Clayton Act in its present form, and that in the absence of further developments no further action should be taken by the Board.

At the conclusion of the discussion, upon motion by Mr. Szymczak, it was agreed unanimously that Counsel should prepare replies to the inquiries received by the Board along the lines suggested by Chairman Eccles.

Mr. Chase left the meeting at this point.

Mr. Gardner stated that the memorandum which he and Mr. Goldenweiser prepared on the proposed Inter-American Bank was sent by messenger to Mr. Berle, Under Secretary of State, on January 19, 1940, that Mr. Berle subsequently advised that he liked the memorandum very much, that he had discussed the matter further with the Secretary of the Treasury, but that the latter had not taken a definite position other than that he would go along with the State Department's proposal which the latter should present to Congress, that Mr. Berle asked the Secretary of the Treasury to undertake to obtain a decision on the questions raised in the memorandum submitted by the Board's representatives, and that as a result of that suggestion another meeting of the



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Treasury, State Department, and Federal Reserve representatives was held yesterday morning during which the Treasury representatives took the position that they could not undertake to discuss further the questions related to participation of the Governments or central banks in the direction of the proposed bank as that was a matter for decision by higher authority. Mr. Gardner said he agreed with that position but stated that there was to be another meeting of the Subcommittee of the Inter-American Financial and Economic Advisory Committee that afternoon which it was understood was going to continue the discussion of the proposed bank and that his question was whether it would be possible to get an agreement on the points of difference before that meeting. The answer to his question, Mr. Gardner said, was that that was a matter for decision by Mr. Berle.

Mr. Gardner made the further statement that it had been expected that the discussion of the plan for the bank would be finished at a meeting of the subcommittee which was held yesterday afternoon so that it could be submitted to the full committee and then to the Governments of the interested nations, that that was not accomplished at the meeting yesterday and another meeting was scheduled for tomorrow, and that when talking to Mr. Berle after yesterday's meeting of the subcommittee, he (Mr. Gardner) called Mr. Berle's attention to the newspaper articles which had appeared with respect to the proposed bank and stated that these accounts implied that the proposed bank was the result of a joint recommendation by Treasury and Federal Reserve experts, while

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in fact the Board was not committed in any way on the matter. Mr. Berle recognized that fact and indicated that he was having difficulty in getting the Treasury Department to discuss the points of difference between representatives of the Treasury and the Board. Mr. Gardner added that at no point had the representatives of the other Governments been advised of the existence of any difference of opinion between the representatives of the Treasury and the Board. He also said that the plan had been to bring about the adoption of a convention by the interested Governments to which would be attached the detailed statutes governing the operation of the bank which would be approved with the convention, but that Mr. Berle was now working towards having the Governments approve a convention which would state in general terms the purposes of the bank and its power leaving the work of organizing the bank to an organization committee which would write the detailed statutes of the bank.

During a discussion of action that the Board might take it was agreed by the members present that the Board should not permit a situation to arise where the implication would be created that it had agreed to the proposal submitted by the Treasury representatives so that if the plan were submitted to Congress for approval and the Board were given an opportunity to express its opinion it would be precluded from registering any opposition that it might have to the plan, and the Board should determine whether it wanted to make known at the meeting of the subcommittee or elsewhere that it was not in favor of the proposal in the form being discussed and had submitted another plan.

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Mr. Goldenweiser suggested that the most desirable procedure would be to talk with Mr. Berle and suggest that he undertake to get an agreement between the American experts on the matter, and that if such an agreement were not obtained the Board could then determine whether it desired to make its position known to the members of the subcommittee or what other action it might take.

It was agreed unanimously that Mr. Goldenweiser should call Mr. Berle on the telephone this afternoon and suggest that he undertake to get an agreement on the points of difference in the memoranda submitted by the representatives of the Board and the Treasury.

In connection with the above matter Mr. Morrill presented a letter, dated January 25, 1940, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, relating to conversations which the bank had had with Carlos Guachalla, representative of Bolivia on the Inter-American Financial and Economic Advisory Committee, in which the latter made inquiry on behalf of the central bank of Bolivia what the attitude of the Federal Reserve Bank of New York would be toward a request for a credit to help stabilize Bolivian-dollar exchange. The last paragraph of the letter raised a question whether there is any reciprocity in the procedure in effect between the Federal Reserve Bank of New York and the Board with respect to foreign bank relations and stated that the Federal Reserve Bank would be very much interested in receiving any information which could be given to it concerning the



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current proposals and the progress of the negotiations being conducted in connection with the Inter-American Bank.

It was agreed unanimously that Mr. Goldenweiser should call Mr. Sproul and tell him that if he or Mr. Knoke, Vice President of the New York bank, would come to Washington the Board's staff would be pleased to show them in confidence such information as it has on the matter.

In taking this action it was understood that Mr. Goldenweiser would be authorized to show to the representative of the Federal Reserve Bank of New York in confidence the memorandum prepared by the representatives of the Treasury and the memorandum prepared by Messrs. Goldenweiser and Gardner.

Mr. Morrill reported that there had been received in the Chairman's office a letter dated January 23, 1940, from the Comptroller of the Currency, with which were enclosed copies of telegraphic correspondence exchanged between the Comptroller's office and the chief national bank examiner at San Francisco and the Bank of America National Trust & Savings Association with respect to (1) the chief national bank examiner making available to the State Bank Commissioner reports and records in the office of the chief examiner relating to the Bank of America, and (2) the legal authority under which the Comptroller of the Currency issued the order to show cause why the report of examination of the national bank should not be published.

Chairman Eccles left the room and upon his return stated that he had just talked over the telephone with Mr. Day, President of the

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Federal Reserve Bank of San Francisco, and Mr. Davis who was in San Francisco, and that Mr. Day stated that the Bank of America had submitted an inquiry to the Federal Reserve bank with respect to the procedure to be followed in the conversion of the bank into a State institution and that a copy of the inquiry and the Federal Reserve bank's reply was being sent to the Board by air mail. Mr. Day also said, Chairman Eccles stated, that the national bank had employed O. K. Cushing of San Francisco, as special counsel, that he was coming to Washington to talk to the Board's counsel and possibly the Board, that a State charter for the converted bank would be issued today, that a meeting of shareholders of the bank could be held on ten days' notice, and that the bank's present thought was to convert into a State institution and take the position that the converted bank was not a new institution and that, therefore, it did not have to apply for membership in the System but that its membership would continue.

It was stated that no answer had been received from the Comptroller of the Currency to the suggestion that representatives of the Board, the Comptroller, and the Federal Deposit Insurance Corporation work out a program which could be submitted to the national bank and that there was no action that need be taken by the Board at the present time. It was understood, however, that copies of the memoranda prepared by Messrs. Dreibelbis and Cagle regarding the condition of the bank and certain practices of its officers would be furnished to each member of the Board.



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There was then presented a letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, reading as follows. The letter had been circulated among the members of the Board and Mr. Draper had indicated that he was not in agreement with the conclusion reached in the letter:

"Reference is made to your letter of December 23, 1939, presenting for the consideration of the Board the question whether Bethesda, Maryland, and Washington, D. C., are 'adjacent' within the meaning of section 8 of the Clayton Act, since the question has a bearing on the service, after February 1, 1940, of two directors of the Bank of Bethesda, Bethesda, Maryland, who are serving also as directors of member banks in Washington, D. C.

"It is understood that Bethesda, Maryland, is an unincorporated community lying within the seventh election district of Maryland; that, although the southern boundary line of this election district touches the boundary line of the District of Columbia, the election district includes various taxing units or areas among which are such communities as Chevy Chase, Friendship, and Somerset; that what may be regarded as Bethesda proper is situated a mile or more beyond the District of Columbia line, that the taxing areas or units known as Chevy Chase, Friendship, and Somerset are situated between the boundary line of the District of Columbia and the community regarded as Bethesda proper. It is understood also that Bethesda is a distinct community having its own business area, that the Bank of Bethesda having total resources of approximately two million dollars is the only bank in the community, and that the nature and extent of its business is probably governed more by the convenience of its customers or potential customers than by actual competitive factors.

"In its letter of October 11, 1935 (X-9341-a) the Board stated that in case of doubt as to the applicability of exception numbered (5) of section 8 of the Clayton Act, consideration might properly be given to the question whether there is any substantial conflict of competitive interest between the banks of one city, town or village and the banks of the other. Since there appears to be some doubt whether the two cities are 'in practical effect a single city', and since there does not appear to

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"be any substantial conflict of competitive interest between the one bank in Bethesda and the banks in Washington, the Board is of the opinion that Bethesda, Maryland, and Washington, D. C., should not be regarded as 'adjacent' within the meaning of the exception set forth in section 2(d)(5) of the Board's Regulation L."

After discussion the letter was approved, Mr. Draper voting "no".

At this point, Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Dreibelbis and Gardner 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 January 24, 1940, were approved unanimously.

Memorandum dated January 19, 1940, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, for the reasons stated in the memorandum, Mr. William J. Rowan, an employee of the Division of Bank Operations, who will be 65 years of age on April 6, 1940, be retired as of June 30, 1940, and that the Board contribute to the Retirement System of the Federal Reserve Banks, for the purpose of increasing Mr. Rowan's retirement allowance, an amount (\$1,250) equal to six months' salary.

The recommendations were approved unanimously.

Letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, reading as follows:

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"In accordance with the recommendation contained in your letter of January 18 on the subject, the Board approves the appointment of N. B. Harwell as an assistant examiner for the Federal Reserve Bank of Atlanta. Please advise us of the date Mr. Harwell assumes his duties and of the salary he is to receive."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. C. C. C.  
Chairman.