

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 23, 1940, at 11:30 a.m.

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

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 22, 1940, were approved unanimously.

Letter to the board of directors of the "Farmers and Merchants Bank of Linesville", Linesville, Pennsylvania, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, 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 Cleveland.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Farmers and Merchants Bank of Linesville', Linesville, Pennsylvania, for membership

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"in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Secretary of Banking for the Commonwealth of Pennsylvania for his information.

"Since the amount of estimated losses classified in the report of examination for membership is small, the usual condition regarding the elimination of estimated losses has not been prescribed.

"Apparently the bank does not reserve the right to require notice of intended savings deposit withdrawals of \$100 or less and it is assumed that you will see that the bank's practices in this respect are brought into conformity with the provisions of Regulation Q. It is assumed also that you will follow the matter of the bank's making provision for the amortization of premium on all bonds."

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

"This refers to your letter of April 15, 1940, requesting written consent of the Board of Governors for the examiners of your Corporation to make an independent examination of the Syracuse Trust Company, a member bank, of Syracuse, New York.

"In view of the many conversations held between your Corporation, the Reconstruction Finance Corporation, the State Banking Department of New York and representatives of the Board regarding the bank, an answer to your letter has been delayed until the Board had received formal advice of certain other arrangements that had been made. We are now in receipt of a letter from Mr. M. J. McGrath, Chief, Examining Division, Reconstruction Finance Corporation, saying that he has been advised by telephone that in view of the developments your Corporation will consider the matter of making an independent examination as closed. Therefore, the Board assumes that no further answer to your letter is desired."

Approved unanimously.

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Letter to Mr. T. A. Dines, President, The United States National Bank, Denver, Colorado, reading as follows:

"This refers to your letter of May 16, 1940, relative to the Clayton Act status of directors E. S. Kassler, Sr., and C. A. Kendrick of your institution who are also serving as directors of the First Industrial Bank of Denver, Denver, Colorado. You request permission under the Clayton Act for them to continue serving the two institutions, and, if such permission is not possible, you request advice as to whether they may be permitted to serve as directors of The United States National Bank and as members of an Advisory Committee of stockholders of the First Industrial Bank of Denver to be created in order that Messrs. Kassler and Kendrick may have a continuing contact with the First Industrial Bank of Denver and make their influence, counsel and judgment available to it.

"Section 8 of the Clayton Act, as amended by the Banking Act of 1935, prohibits a director, officer or employee of a member bank of the Federal Reserve System or branch thereof from serving at the same time as a director, officer or employee of any other bank or branch thereof located in the same city, town or village or in cities, towns or villages contiguous or adjacent thereto, except in certain classes of cases enumerated in the statute and except that the Board of Governors may by regulation permit such service as a director, officer or employee of not more than one other such institution or branch thereof. The Board is not now authorized, as it was prior to the enactment of the Banking Act of 1935, to grant permits in individual cases; and its power of granting permission is limited to doing so by regulations of general applicability with the result that an exception, by regulation, applicable to the relationships of Messrs. Kassler and Kendrick would be applicable to all similar cases.

"In January 1936, the Board of Governors made an exception, by regulation, applicable to Morris Plan banks and similar institutions. Subsequently, however, when it appeared that many Morris Plan banks had begun to receive deposits and were no longer limiting the scope of their activities to the type of loans which were originally peculiar to Morris Plan banks, and after investigating the situation over the whole country, the exception which the Board had made with regard to Morris Plan banks was revoked.

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"The statute, as you probably know, contained a provision authorizing the continuance until February 1, 1939, of such interlocking relationships as were lawfully existing on August 23, 1935; and on several occasions the Board, pursuant to the authority conferred upon it by the Congress, extended the time for the continuance of relationships involving a member bank and not more than one other institution, the final extension dated February 1, 1940, authorizing the continuance of such relationships until June 1, 1940. The extensions which the Board made were also applicable to existing relationships involving Morris Plan banks.

"In recent months the Board has had occasion to consider the nature of business conducted by some Morris Plan institutions and in a few cases has reached the conclusion that a particular company operating strictly on the Morris Plan and possessing substantially all of the characteristics of a loan company rather than those of a bank was not a 'bank' within the meaning of section 8 of the Clayton Act, the effect of which was to exempt from the prohibitions of the Clayton Act interlocking relationships involving the directors of such company who were also serving a member bank. If there is a substantial basis for a determination that the First Industrial Bank of Denver is not a 'bank' within the purview of the Clayton Act, it is suggested that you first take up the question with the Federal Reserve Bank of Kansas City.

"With respect to your further question whether members of a prospective Advisory Committee of the First Industrial Bank of Denver would be considered 'directors, officers, or employees' within the meaning of the Clayton Act, a determination of this matter depends very largely upon the facts and the purpose of its creation. If the members of such Committee are elected by the directors and not the stockholders; if, as indicated in your letter, the Committee acts merely as a conference group upon such questions and problems as may be referred to it by the officers and directors, its counsel and opinions not being binding upon any one; and if the Committee has no control, legal or otherwise, over the operations of the institution, the members having no vote or power of decision upon the affairs of the bank, and receiving no compensation, it is possible that they would not be regarded as 'directors, officers or employees' within the meaning of the Clayton Act. Before

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"passing upon this question, however, the Board would need to have definite information as to the purpose for which the Advisory Committee was created, whether the members of the Committee are elected by the stockholders or directors, whether there are any unusual provisions of the State law or of the charter or by-laws of the institution which would have a bearing on the question; and information as to the composition of the Committee, together with a copy of the by-law provisions creating the Committee and relating to its powers, functions and responsibilities.

"A copy of your letter and a copy of this reply are being forwarded to the Federal Reserve Bank of Kansas City, Kansas City, Missouri, and it is suggested that you discuss the two matters referred to herein with that bank which, if it is unable to advise you fully in regard thereto, will submit either or both to the Board, together with full information, for a determination thereon."

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

"There are enclosed a copy of a letter dated May 16, 1940, from Mr. T. A. Dines, President of The United States National Bank, Denver, Colorado, and a copy of our reply of this date thereto, relative to the Clayton Act status of Messrs. E. S. Kassler, Sr., and C. A. Kendrick, which are self-explanatory.

"The paragraph in our reply relating to the matter of determining whether the First Industrial Bank of Denver, Denver, Colorado, is a 'bank' within the meaning of the Clayton Act has reference, as you know, to the Board's letter of October 19, 1939, S-189-a.

"With respect to the question whether members of the proposed Advisory Committee of the First Industrial Bank of Denver are 'directors, officers or employees' within the meaning of the Clayton Act your attention is directed to the ruling of the Board published at page 118 of the Federal Reserve Bulletin for 1917."

Mr. Morrill suggested that the Board authorize the payment of the cost of the luncheons served to Messrs. Louis J. Taber, Eugene A.

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Eckert, F. J. Frestone, and Ray W. Gill, members of the executive committee of the National Grange, in the Board's dining room today.

Approved unanimously.

Thereupon the meeting adjourned.

Walter Morris
Secretary.

Approved:

W. S. Coates
Chairman.