

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, August 16, 1940, at 2:30 p.m.

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

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary

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 August 15, 1940, were approved unanimously.

Memorandum dated August 13, 1940, from Mr. Carpenter, recommending that, for the reason stated in the memorandum, Ernest F. Kausch be appointed as a clerk in the Office of the Secretary, with salary at the rate of \$1,800 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Approved unanimously.

Memorandum dated August 15, 1940, from Mr. Van Fossen, Assistant Chief of the Division of Bank Operations, submitting a letter dated August 12, 1940, from Mr. Gilbert, President of the Federal Reserve Bank of Dallas, which recommended approval by the Board of changes

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in the personnel classification plan of the Bank to provide for increases in the maximum salaries for the positions of "Supervisor of Commodity Loans" in the Reconstruction Finance Corporation and Public Works Administration Custodies Department and "Chief Audit Clerk" in the Auditing Department. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Treiber, Assistant Secretary of the Federal Reserve Bank of New York, Mr. Post, Secretary of the Federal Reserve Bank of Philadelphia, Mr. Wagner, Vice President of the Federal Reserve Bank of Cleveland, Messrs. Dillard and Stewart, Secretaries of the Federal Reserve Banks of Chicago and St. Louis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Banks of St. Louis and San Francisco on August 13, by the Federal Reserve Banks of New York, Cleveland, Chicago, Kansas City, and San Francisco on August 15, 1940, and by the Federal Reserve Banks of Boston and Philadelphia today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the board of directors of the "Shenandoah County Bank

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and Trust Company", Woodstock, Virginia, stating that, subject to conditions of membership numbered 1 to 6 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 Richmond.

The letter also contained the following special comment:

"It appears that the bank possesses certain powers which are not being exercised and which are not necessarily required in the conduct of a banking and trust business, such as powers with respect to the guaranty, and perhaps the issuance, of bonds. Attention is invited to the fact that if the bank desires to exercise any powers not actually exercised at the time of admission to membership, it will be necessary under condition of membership numbered 1 to obtain the permission of the Board of Governors before exercising them. In this connection, the Board understands that there has been no change in the scope of the corporate powers exercised by the bank since the date of its application for membership."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Shenandoah County Bank and Trust Company', Woodstock, Virginia, for membership 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 Commissioner of Banking for the Commonwealth of Virginia for his information.

"It will be noted that the Board has not prescribed the special condition recommended by the Reserve Bank

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"Committee with respect to the issuance of interest bearing certificates or notes or bonds but has covered the matter in the letter to the bank."

Letter to the board of directors of the "Greenfield Banking Company", Greenfield, Indiana, 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 Chicago.

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Greenfield Banking Company', Greenfield, Indiana, for membership 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 Director, Department of Financial Institutions, for the State of Indiana for his information.

"The unsatisfactory features inherent in the bank's securities account have been the concern of the State Department and the Federal Deposit Insurance Corporation for some time and it appears that the president of the bank, who is not an active officer, has agreed to take a more active interest in the bank's affairs and to undertake an orderly liquidation of the substandard securities. The application has been approved with the understanding that the Reserve Bank will follow the situation closely and further the efforts which the State Department and the Federal Deposit Insurance Corporation have made to bring about the desired improvements in the account.

"Since the amount of losses classified in the report

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"of examination for membership is nominal, the usual condition of membership regarding elimination of losses has not been prescribed."

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in reply to your letter of July 26 suggesting that standard condition of membership numbered 7 which was prescribed for a period of a few years prior to January 1, 1936, be canceled for the institutions to which it now applies. You state that of the 171 State member banks in your district only 29 are subject to the conditions, which reads as follows:

'Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.'

"If the condition were to be canceled for the banks in one district, it should, of course, be canceled for the banks in all districts. Moreover, if the one condition were to be canceled on the grounds that it is not being made applicable to banks which now join the System, it would seem that the same reason would suggest the general cancelation of other conditions no longer prescribed.

"While it would be highly desirable, of course, if all State member banks were subject to the same conditions of membership, serious difficulties are involved in bringing about such a situation. A survey of this problem is actively under way, as well as a study of the possibilities of minimizing or eliminating discriminations not only between State member banks but also as between State member banks, national banks, and insured nonmember banks as classes.

"Since the Federal Reserve Banks are authorized to act on behalf of the Board upon requests for extensions

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"under the provisions of former standard condition of membership numbered 7, it is believed that little, if any, hardship now prevails because of the requirements of the condition. In this connection it might be observed that when the condition was originally prescribed, Federal statutes did not prohibit the purchase of stocks by State member banks and the Board was particularly concerned about the acquisition by State member banks of stock in other banks and in controlled or affiliated corporations. As stated in its letter of April 2, 1935, X-9169-a, the Board also felt that, in general, stocks were not suitable for the investment of funds of member banks, and the restrictions and provisions of the condition were intended to promote sound banking practice. Giving consideration to the background of the condition and its general purposes, it is believed that the Federal Reserve Banks may properly follow a liberal policy in passing upon requests for extension involving stocks which, in effect, represent other real estate, such as referred to in your letter of July 29 with respect to the City Bank Farmers Trust Company of New York. In cases where total holdings of marketable stocks are not large and it is evident that the management is not following speculative policies with respect to its stock holdings, it is believed that considerable latitude is likewise justified in passing upon requests for an extension involving stocks which do not represent significant interests in other banks or in other corporations, particularly where such stocks have been written down to nominal values."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"This is in reply to your letter of July 29, 1940, regarding two requests by the 'City Bank Farmers Trust Company', New York, (1) for an extension of time within which to dispose of stocks of various real estate corporations and (2) for the cancelation of condition of membership numbered 7. It is noted that you have granted an extension until June 15, 1941, of the time within which the bank may dispose of the stocks in question.

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"In a separate letter the Board has today replied to your letter of July 26 regarding your recommendation that former standard condition of membership numbered 7 be canceled generally. In view of the position expressed in that reply, it is suggested that you advise the City Bank Farmers Trust Company that action upon its request for cancelation of condition of membership numbered 7 is being deferred pending further studies bearing on the general and related questions."

Approved unanimously.

Letter to Mr. Chester T. Lane, General Counsel of the Securities and Exchange Commission, reading as follows:

"Receipt is acknowledged of your letter of August 15, 1940 with further reference to the practices of the Trust Company of Georgia in connection with the purchase and sale of securities for customers.

"With regard to your reference to the practices to be followed by the Trust Company of Georgia in the future, in order to avoid the possibility of any misunderstanding in this connection it may be said that the information given to Mr. Pavenstedt by members of our staff regarding such future practices was obtained entirely from the letter dated August 2, 1940 from the President of the Federal Reserve Bank of Atlanta and from its enclosures. Copies of this letter and its enclosures were furnished to Mr. Pavenstedt at the time.

"In accordance with your request, when the next regular examination of the Trust Company of Georgia has been completed we shall be glad to advise you of its results with respect to the point under discussion in our correspondence."

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

"Referring to your letter of August 2, 1940 and our reply of August 13, 1940, regarding the practices of the Trust Company of Georgia as to securities transactions

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"for customers, there are enclosed herewith for your further information in this connection a copy of our letter to the General Counsel of the Securities and Exchange Commission dated August 13, 1940, a copy of his reply dated August 15, 1940, and a copy of a letter which we are addressing to him today.

"We are advised by representatives of the Securities and Exchange Commission that, in accordance with an informal understanding between Mr. Green and Mr. Denmark, the examiners on the occasion of the next regular examination of the Trust Company of Georgia will ascertain the practices then being followed by it in relation to this matter; and you will note that we have agreed to advise Mr. Lane of the results of this examination in so far as they relate to this point."

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

"This refers to your letter of August 7, 1940, with enclosure, and previous correspondence, relative to the Clayton Act status of Mr. Karl Goldsmith, with particular reference to the question whether Pierre and Fort Pierre, South Dakota, are 'contiguous or adjacent' within the meaning of the Clayton Act. In this connection, you have submitted an aerial photograph identified by the symbols 8-16-39 and CBQ 2-67.

"From the information submitted by The Fort Pierre National Bank in its letter of January 24, 1940, it appears that the two towns are situated in different counties, that they are county seats of their respective counties, that they are separated by the Missouri River which is over one mile in width at the point of separation, that a State highway bridge spans the river from within the city limits of Pierre to a point about a mile north of the city limits of Fort Pierre, and that the distance between the business sections of the towns is approximately three miles. Based upon this information and the general geographic situation as shown by the aerial photograph referred to above, it appears that the two towns are not in practical effect a single city, town or village and accordingly, it is the opinion of the Board that they should not be regarded as 'adjacent' within the meaning of the

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"Clayton Act. You have not submitted information as to whether the corporate limits of the two towns touch or coincide at some point and, accordingly, the Board is unable to determine whether or not the two towns are 'contiguous'. As you know, of course, if the corporate limits of Pierre and Fort Pierre actually touch or coincide, the towns are 'contiguous' and the interlocking relationship in question is prohibited."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Morrill
Secretary.

Approved:

W. C. ...
Chairman.