

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 16, 1940, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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 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 December 14, 1940, were approved unanimously.

Memorandum dated December 12, 1940, from Mr. Nelson, Assistant Secretary, submitting a request from Julian B. Hammond, guard in the Building Operation and Maintenance Section of the Secretary's Office, for leave of absence beginning December 16, 1940, for the purpose of reporting for military duty with the United States Marine Corps, and recommending that Mr. Hammond be granted leave of absence for military duty beginning December 16, 1940, in accordance with the policy adopted by the Board on November 14, 1940, for all employees called for military duty.

Approved unanimously.

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Letter to Mr. Robert O. Bonnell, President of The Public Bank of Maryland, Baltimore, Maryland, reading as follows:

"Receipt is acknowledged of your letter of December 2, 1940, addressed to Chairman Eccles in which you ask whether the officers and board of your bank may continue to have the benefit of the advice and counsel of certain former directors of your bank who have resigned because of the provisions of the Clayton Act.

"Specifically, you inquire whether the statute would make it unlawful for these former directors to serve on an informal advisory committee, the members of which would not be elected by the stockholders but would serve at the request of the president and with the consent of the board of directors. You state, further, that they would have no regular or official duties and would receive no salaries, and that although they would be invited from time to time to sit with the board, they would have no vote, and would receive only a nominal fee for attendance at meetings.

"You will, of course, understand that each case of this kind must be decided on the basis of its own particular facts, under applicable law. For example, under the National Bank Act a person cannot be a director unless he is elected as such by the stockholders or appointed as such by the other directors to fill a vacancy. Under general principles of corporation law a person is an officer if he has certain duties and responsibilities in managing the affairs of the corporation. The meaning of the word 'employee' has been the subject of a large number of court decisions and usually refers to a person who works for a regular salary under the direction of his employer.

"Accordingly, any advice based upon the somewhat general outline which you have given must be subject to the qualification that the question whether a member of the committee would be a director, officer or employee of your bank within the meaning of the Clayton Act might depend upon some factor which had not been considered, and, manifestly, if you should alter the plan before or after putting it into effect, entirely different questions might be presented. However, with these qualifications it may be said that the plan which you outline in your

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"letter appears to contemplate merely an informal committee to which your directors may turn from time to time for counsel on particular matters, and therefore would appear to involve no violation of the statute."

Approved unanimously.

Letter to the Presidents of all Federal Reserve Banks, reading as follows:

"In accordance with letter X-7629 of October 5, 1933 (Loose-Leaf Service #6050) and letter X-4739 of December 4, 1926, the Federal Reserve Banks make a review as of the end of each year and furnish the Board with a report and recommendation covering member banks in the respective districts located in outlying sections of reserve and central reserve cities (except New York City) which have been granted permission to carry lower reserves on deposits than are required to be carried by other banks located in such cities. After the reports have been reviewed at the Board's offices, the Federal Reserve Banks are advised whether or not the Board concurs in their recommendations.

"The annual reviews of these reports at the Board's offices have resulted in the revocation of permission to carry lower reserves in only one case, the revocation being due to the establishment of a branch of the bank in the downtown section of the city. In the circumstances, your reviews and the resulting reports and recommendations to the Board on this subject may hereafter be made at three-year intervals. The next regular review, accordingly, should be made as of December 31, 1942. In the interim, if a bank that has permission to carry reduced reserves establishes a downtown branch, or if there is brought to your attention a change in the character of its business which might warrant revocation of the permission to carry reduced reserves, the facts in the case should be brought to the Board's attention promptly with such recommendation as you may care to make."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Merrill
Secretary.

Approved:

W. S. Coates
Chairman.