

September 12, 1935.

Memorandum for the Board
From Mr. Morrill

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The last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935, approved August 23, 1935, reads as follows: 10

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

This provision of law became effective on August 23, 1935, the date of its approval by the President, and placed upon the Board the responsibility beginning with that date of keeping certain new records.

As a basis for the discussion of the procedure to be followed in compliance with this provision of law it should be observed that it provides for three records, as follows:

(1) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

(2) A complete record of the actions taken by the Federal Open Market Committee as constituted until March 1, 1936, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee.

(3) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the Committee 15

as such and not of the Board as such. ✓

Inasmuch as the procedure to be followed by the Board with respect to all questions of policy determined by it, regardless of whether they relate to open market operations or not, is the one of immediate importance in point of time, it will be taken up first in this memorandum. 10

1. Board's record of its own actions.

It will be noted that the Board as such is required

(1) to keep a record of the actions taken by it upon all questions of policy relating to open market operations and on all other questions of policy determined by it in which shall be set forth (a) the votes taken in connection with the determination of such policies and (b) the reasons underlying the action in each instance;

(2) to publish in its annual report a full account of the actions so taken during the preceding year; and

(3) to include in such annual report a copy of the records required to be kept under the new provision of law.

The official minutes of the Board are prepared in sufficient detail to show, in connection with each entry of action taken with respect to any question of policy determined by the Board, the votes taken and the reasons given as underlying the action taken. However, the minutes of the Board are not confined to such questions. They include many details and a great deal of routine business. There are also minutes of executive committee meetings in addition to those of Board meetings. For these reasons, and in order to carry out the new requirements of law, it is contemplated that a separate record shall be established entitled "Record of Actions on Questions of Policy by Board of Governors of the Federal Reserve System required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". This will be in addition to the Board's minutes which will be kept in accordance with existing procedure.

In this new record would be incorporated entries of all actions taken by the Board on questions of policy determined by it, showing the votes taken and the reasons given as underlying the actions taken. These entries would not necessarily be as detailed or voluminous as the minutes but would contain the required information and be entirely in harmony with the minutes.

In this connection special consideration should be given to the procedure to be followed with respect to actions taken when a quorum of the Board is not actually present. These actions are taken by the executive committee or an interim committee pursuant to the provisions of the Board's bylaws. However, it is believed that such actions, when they constitute actions or questions of policy, should be incorporated currently

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in the new record, showing, as in the case of Board meetings, the members who took the action, without waiting until the date on which the minutes containing such action are approved at a meeting of the Board at which a quorum is present. 10

While it is believed that in order to comply with the new provision of law every action of the Board taken subsequent to August 23, 1935, making any change in existing policy as well as every action establishing any new policy should be included in this record, it is believed unnecessary to include entries of actions taken subsequent to the enactment of the Banking Act of 1935 which merely carry out or conform to policies adopted by the Board prior to the enactment of the Banking Act of 1935, without change in such policies. For example the grant of permission to exercise trust powers or the issuance of a temporary limited voting permit would not ordinarily be regarded as the determination of a question of policy. It may be proper also to omit from this record actions recorded in the minutes which merely permit exceptions in particular instances to general policies previously adopted, without the determination by the Board of any change therein or of any new policy. In addition, the issuance by the Board of rulings merely interpreting the law or the Board's regulations in accordance with the opinion of the Board's counsel would not be regarded as action on questions of policy, in the absence of special circumstances. ?

Specific reference in entries in the official minutes of the Board to the names of individuals, banks, corporations and other organizations would be eliminated in the new record (unless necessary for a proper understanding of the record) through appropriate substitutions for such references, such as the words "an individual" for the name of a person, the words "a State member bank" or "a national bank" for the name of a specific member bank, etc. Portions of the discussion referring to the internal administration of the Board's affairs and other details in the entries of the official minutes which are not considered to be necessary for a proper understanding of the action taken and the underlying reasons therefor would also be eliminated. 10

A proposed title page and fly leaf of the new record to be kept by the Board and samples of extracts from the minutes which it is proposed to place in the record are attached.

Under the present procedure, as soon as the official minutes of the Board have been drafted a copy is circulated among the members for their approval and initials. In order to facilitate the preparation of the new record it is contemplated that there would be included in the covering circulation sheet accompanying each copy of the minutes a list briefly describing the items to be incorporated in the separate record. A sample of such a circulation sheet is attached. It would be considered that the initials on this circulation slip would not only constitute approval of the draft of the minutes but also approval of the inclusion in the record of the items referred to in the list. It is assumed that the Board will wish also to have a copy of the record as thereafter prepared in accordance 3t

with this procedure circulated for approval and initials in the same manner as copies of the minutes are now circulated.

With respect to the record two forms might be established, the first of which would contain the entries in chronological order as they appear in the minutes. The other form might be one in which the entries would be classified and grouped according to subject matter. However, in view of the fact that the law requires that an account of all actions on questions of policy be included in the Board's annual report and that in such account the discussion is likely to be in narrative form, primarily according to subject matter, it would seem that the record in chronological order which could be kept up to date currently, together with an index which would classify and group the entries according to subject matter, would be sufficient without the second form of record above mentioned.

2. Board's Record of Actions Taken by Existing Federal Open Market Committee.

As previously indicated, the Board is required to keep a record of the actions taken by the Federal Open Market Committee as now constituted until it is replaced by the Federal Open Market Committee created by section 12A of the Federal Reserve Act as amended effective March 1, 1936.

The legal requirements which must be met in this connection are the same as those set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions. It is believed that the meaning of the requirements that the Board shall keep the record and that it shall record therein certain matters is that the Board is expected to make the record and that mere acceptance and custodianship of a record prepared by the committee of meetings at which the Board was not present or represented would not suffice. The question of procedure therefore requires special consideration because the membership of the present Federal Open Market Committee does not include any member of the Board of Governors and it has been the practice for the committee to hold meetings and take action at such meetings when the Board is neither present nor represented in any way. As a rule the Board has been dependent upon the oral reports of the chairman of the committee after it has held its separate meetings and taken action thereat. The formal minutes of the open market committee have been received by the Board at a considerably later date. The requirements of the law now suggest the necessity of giving consideration before the next meeting of the Federal Open Market Committee to the question of the attendance of the Board and its secretarial staff. The law provides that meetings of this committee may, in the discretion of the Board, be attended by members of the Board.

In this connection it may be pointed out that there have been only two meetings this year of the Federal Open Market Committee and that in order to comply with the law there should be two more meetings at Washington during the remaining months of this calendar year. 10

In view of the exceptional importance that might attach to actions taken by the Federal Open Market Committee the question which has been discussed heretofore should be determined definitely whether stenographic, verbatim reports should be made of such meetings. It is not considered that such a report is contemplated by the law, which requires a record only of the actions taken on questions of policy, of the votes taken in connection therewith, and of the underlying reasons for such actions. However, in some circumstances a stenographic report might be useful for reference purposes and as a basis for the record which the Board is required to establish. The possible effect of the making of a stenographic report upon the extent and freedom of discussion will of course be a factor in determining this question. In any event the stenographic report would not be treated as the "record" and would only be placed in the Board's files for purposes of reference in the discretion of the Board.

If such a report should be desired it will be necessary either to make arrangements with an outside expert stenographic reporter for services to be rendered from time to time as needed or to employ and carry an expert stenographic reporter regularly on the payroll of the Board. If an expert stenographic reporter were employed and carried regularly on the payroll of the Board it is likely that there would not be sufficient stenographic reporting work to keep him constantly in good training, and there would be difficulty in getting a competent person to accept employment in such circumstances. If an arrangement were made with an outside stenographic reporter consideration should be given to the desirability of requiring that his transcriptions be made at the offices of the Board and that his stenographic notes as well as transcriptions be left in the offices of the Board's Secretary staff. Such a person not only must be unquestionably competent but also one who can be relied upon not to give any information to any one regarding the meetings which he attends.

In recognition of the fact that at present the Governors of the Federal reserve banks constitute the membership of the Federal Open Market Committee and that, in order to insure the correctness of the record with special reference to the statement of the underlying reasons for actions taken, some plan should be adopted for avoiding delay in obtaining their approval of the record as well as that of the Board of Governors of the Federal Reserve System, it would seem desirable that consideration be given to the establishment of a procedure to be followed by the committee and the Board, before adjournment of the meetings of the Federal Open Market Committee, for determining the contents of the record. One suggestion that has been made is that a special sub-committee might be appointed for this purpose. 10

This record should be similar in form to the Board's record of its own actions and it is suggested that it be entitled "Record of Actions on questions of policy by the Federal Open Market Committee, required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". 5x

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3. Board's Record of Actions Taken by Federal
Open Market Committee Established effective
March 1, 1936.

When the new Federal Open Market Committee created effective March 1, 1936, begins to hold meetings and take actions the Board will be required to keep a record of such actions and to meet the same legal requirements which must be met in connection with the actions of the present Federal Open Market Committee and the Board's own actions. These requirements are set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions.

The questions to be considered in connection with this committee are different only in that the members of the Board of Governors of the Federal Reserve System will also be members of the Federal Open Market Committee, but the duty under the law of making the record of the actions of the committee is cast upon the Board of Governors as such and not merely upon the Federal Open Market Committee. Aside from this, the experience that will have been gained prior to March 1 in complying with the requirements of the law will very likely dispose of virtually all questions of procedure with respect to the actions of this committee.

Board's Annual Report

One of the requirements of the law is that the Board shall include in its annual report to the Congress a full account of the actions taken "during the preceding year with respect to open market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept".

For this purpose it is assumed that the records kept in compliance with this requirement of the law should be attached to the annual report as appendices and that the account of the actions taken will be a narrative in orderly form which will be included in the text of the annual report and will be based upon and refer to the records included in the appendices. While it may be open to question whether the account in the next annual report, which will be submitted in 1936 for the calendar year 1935, is technically required to cover the entire year 1935 or only the period subsequent to August 23, 1935, it would not seem necessary to give serious consideration to this question as there would seem to be no undue difficulty in making the account cover the entire year and it is assumed that the Board will desire to do so.

Summary

Summarizing the foregoing matters the points to be decided by the Board cover the determination of the following matters:

1. The approval of the proposed procedure and forms for keeping the record of the Board's actions.
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2. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee as now constituted, including the question of attendance of the Board and its secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

3. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee created effective March 1, 1936, including the question of attendance of the Board's secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

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