

SECRETARY'S MINUTES


GOVERNORS CONFERENCE

APRIL 27, 28, AND 29, 1931.

WASHINGTON, D. C.

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FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BANK
OF ST. LOUIS

1931 MAY 26 AM 9 13
May 25, 1931

RECEIVED
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CONFIDENTIAL

Mr. Wm. McC. Martin, Governor,
Federal Reserve Bank of St. Louis,
St. Louis, Mo.

Dear Mr. Martin:

There is enclosed for your confidential use,
a copy of the Secretary's minutes of the Conference of
Governors held in Washington on April 27, 28, and 29,
1931. I shall appreciate it if you will call my atten-
tion to any errors or omissions which should be corrected,
and trust that you will feel free to suggest any changes
which you think necessary.

With kind personal regards, I am

Yours sincerely,

A. F. Strater

Secretary,
Governors' conference.

encl.

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HOWARD BOND
MADE IN U.S.A.

PROGRAM
GOVERNORS CONFERENCE

April 27, 28, and 29, 1931

Washington, D. C.

I. CREDIT TRANSACTIONS AND POLICIES

- A. Discount rates and open market operations. New York
1. Their relation to volume of trade, production, and commodity prices.
2. Report on open market operations.
- B. Gold. New York
1. Its effect, if any, upon the present depression.
2. Desirability of publication of separate reserve percentages against notes and deposits.
- C. Relations with foreign banks. New York
1. Report.
2. Operations.
3. Credit and economic conditions in principal foreign countries.
4. Silver.
- D. Desirability of flexibility of interest rates paid on deposits and of bank dividends. New York
- E. Treasury financing. New York
1. Treasury bills, certificates, and long time bonds.
- F. Possible desirability of amending Federal Reserve Act so as to permit a Federal Reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper. New York Philadelphia
- G. Interim report of committee of Governors appointed at September 1930 conference to study Federal Reserve practice and procedure. New York Philadelphia

- H. Should loans on adjusted service certificates be made eligible for pledge with the Agent. Minneapolis
- I. Should earnings, or lack of them, influence our investment policy. San Francisco

II. OPERATION AND ADMINISTRATION

- A. Bank supervision and appropriate relationship of reserve banks to bank examinations and supervision. New York
 - 1. Recommendation of Federal Advisory Council that "There should be imposed upon the Federal Reserve banks the requirement to keep themselves informed of the quality of the investments and loans, and the policy of the management of all member banks." San Francisco Philadelphia
- B. Earnings and expenses of Federal Reserve banks. Minneapolis Chicago Richmond
 - 1. Consideration of advisability of action to reduce expenses of operation of Federal Reserve banks, inauguration of service charges, discontinuance of certain free services, etc., in an effort to more nearly equalize expenses and earnings. Kansas City Cleveland
- C. Reconsideration of character of Fiscal Agency Department expense, which should be reimbursed by the Treasury Department. Kansas City Cleveland
- D. Change in weekly Federal Reserve bank statement. (It has been recommended that hereafter special one-day Treasury certificates of indebtedness be shown separately in the body of the weekly Federal Reserve bank statement against the caption "Special Treasury Certificates." See F. R. Board's letter X-6859 of April 13, 1931). F. R. Board

- E. Compensation for officers and employees of Federal Reserve banks after death and during periods of incapacitation and extended illness. (The board considers it important that some definite understanding should be arrived at concerning this matter, and, if possible, also regarding matter of salary payments to officers and employees absent on account of illness or injury not received in the line of official duty. See F. R. Board's letter X-6859 of April 13, 1931.) F. R. Board
- F. Advertising Federal Reserve membership. New York
- G. Possibility of securing cooperation of investment banking houses in character of securities offered for purchase by banks. Philadelphia

III. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections.
- B. Desirability of endeavoring to get the bankers associations of the different states interested in the matter of having the American Bankers Association bank collection code adopted by their respective State legislatures. Boston
- C. Uniform arrangement to notify all Federal Reserve banks and branches of reopening or succession of banks previously closed. Dallas
- D. Uniformity in respect to advices of final returns following "without returns" notices. Dallas

IV. REPORTS OF COMMITTEES

- A. Insurance committee.
- B. Leased wire committee.
- C. Pension committee.
- D. Subcommittee of general committee on bankers acceptances.

V. SUPPLEMENTARY TOPICS

- A. Desirability of definition by the Treasury Department of the rights, duties, and responsibilities of Federal Reserve banks in "cashing" Government checks and warrants. (See F. R. Board's letter dated April 27, 1931.) F.R. Board
- B. Suggested policy in acting on applications of state banks and trust companies for membership. (See F. R. Board's letter dated April 27, 1931.) F. R. Board
- C. Progressive penalty rates. (See F. R. Board's memorandum X-6892-a dated April 25, 1931.) F. R. Board

G O V E R N O R S C O N F E R E N C E

April 27, 28, and 29, 1931

Washington, D. C.

First Day's Session, Monday, April 27.

Morning

The meeting was called to order at 10:40 a. m.

PRESENT: Governor Calkins, Chairman, and
Governors Young, Harrison,
Norris, Fancher, Seay,
Black, McDougal, Martin,
Geery, Bailey, and Talley.

Deputy Governor Worthington.

Governor Meyer and Messrs. Miller and
James of the Federal Reserve
Board.

Mr. Strater, Secretary.

VOTED that the topics submitted by the Federal Reserve
Board be made the first order of business.

TOPIC II. OPERATION AND ADMINISTRATION (1)
D. Change in weekly Federal
Reserve bank statement.

VOTED that the conference approves the suggestion
contained in the board's letter X-6859 of April 13, 1931, that
special one day certificates of indebtedness be shown separ-
ately in the body of the weekly Federal Reserve bank statement
against the caption "Special Treasury Certificates."

TOPIC II. OPERATION AND ADMINISTRATION

(2)

E. Compensation for officers and employees of Federal Reserve banks after death and during periods of incapacitation and extended illness.

It was the consensus of opinion that this topic embraces two related questions, and it was

VOTED that each question be considered separately:

First: Payment of a sum equal to one or more months salary to the widow, dependents, or estate of deceased officers or employees.

(3)

Careful consideration was given to the matters referred to in the board's letter X-6859, particularly the legal questions involved, and also the desirability of arriving at a definite understanding as to a general policy to be followed by each of the Federal Reserve banks. After a general discussion, in which the members of the Federal Reserve Board participated, it was

VOTED that it is the sense of the conference:

1. That in the event of the death of an officer or employee of a Federal Reserve bank, his salary should be paid up to the next succeeding pay day;
2. That the question whether any further increase in life insurance for officers and employees of a Federal reserve bank is desirable is a matter for the determination of the Board of Directors of that bank subject, if necessary, to the approval of the Federal Reserve Board.

3. That this whole question inevitably raises the propriety of further consideration of a pension plan, and that because of the difficulties and delays attached to the consummation of a group pension plan, the Federal Reserve Board should be asked whether it would approve of a reasonable retirement annuity or insurance plan for individual reserve banks along lines that are now considered appropriate and proper for large corporations in this country employing large numbers of workers.

Second: Payment of salary in full or in part to officers or employees incapacitated on account of sickness, or otherwise. (4)

After a general discussion of the various phases of this question, it was the consensus of opinion that the present procedure as set up by the Federal Reserve Board and followed by all of the Federal Reserve banks was satisfactory, and it was

VOTED that the payment of salary in whole or in part to incapacitated officers or employees should be determined by each Federal Reserve bank in the light of the circumstances surrounding each individual case. Where the absence exceeds the regular vacation period by thirty days, payment of salary during further leave of absence should be subject to approval by the Board of Directors and reported monthly to the Federal Reserve Board, in accordance with the board's letter of June 14, 1928 (X-6069.)

SUPPLEMENTARY TOPIC A. Desirability of defini- (5)
tion by the Treasury
Department of the rights,
duties, and responsibili-
ties of Federal Reserve
banks in "cashing" Govern-
ment checks and warrants.

Governor Calkins read a letter from Governor Meyer dated April 27, 1931, explaining that this matter had been taken up with the board by one of the Federal Reserve banks, and that the board's counsel suggested that the entire matter be referred by the conference to a committee for study and report. A memorandum prepared by the board's counsel was furnished to each member of the conference. It was

VOTED to refer this topic to the Standing Committee on Collections for study and report to the Fall Conference of Governors.

SUPPLEMENTARY TOPIC B. Suggested policy in act- (6)
ing on applications of
State banks and trust
companies for member-
ship.

This topic was also submitted in Governor Meyer's letter of April 27, 1931, with the request that the conference express its opinion with regard to the adoption of the policy by the Federal Reserve Board of requiring that, at the time of admission of a State bank or trust company to membership in the system, it shall be free from all known losses and depreciation so that on the date its membership becomes effective, its statement will reflect as nearly as possible, the value of its assets. It was

VOTED that it is the sense of the conference that the policy which the Federal Reserve Board proposes to adopt is sound in principle.

Governors Young and Black voted in the negative.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (7)
H. Should loans on adjusted service certificates be made eligible for pledge with the Agent.

VOTED that notes representing loans on adjusted service certificates should not be made eligible for pledge with the Federal Reserve Agent.

TOPIC IV. REPORTS OF COMMITTEES (8)
A. Insurance committee.
B. Leased wire committee.
C. Pension committee.
D. Subcommittee of general committee on bankers acceptances.

TOPIC III. COLLECTIONS AND CLEARINGS
A. Report of Standing Committee on Collections.

These committee reports were read, and it was VOTED that they be accepted and filed.

TOPIC II. OPERATION AND ADMINISTRATION (9)
G. Possibility of securing co-operation of investment banking houses in character of securities offered for purchase by banks.

After a general discussion, it was VOTED that this topic be passed without action.

At 1:15 p. m. the conference adjourned to reconvene at 2:15 p. m.

First Day's Session, Monday, April 27.

Afternoon

The meeting was called to order at 2:30 p. m.

Same attendance as at the morning session, except members of the Federal Reserve Board.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES

(10)

A. Discount rates and open market operations.

1. Their relation to volume of trade, production, and commodity prices.

There followed a general discussion of the Federal reserve discount rate and the bill rates, and the effect of recent bill reductions not only on the total volume and price of credit, but on the foreign exchanges and the gold movement. Consideration was also given to the probable effect of any further reductions in bill and discount rates on the rates of interest paid on deposits by banks. It was thought that reductions in interest rates on all classes of deposits might exert some pressure in the direction of compelling surplus credit accumulating as bank deposits to seek employment in other fields.

At the invitation of the conference, Governor Meyer entered the meeting at 4:30 p. m. and joined in the discussion.

At 5:50 p. m. the conference adjourned to reconvene at 10:00 a. m. on Tuesday, April 28.

Second Day's Session, Tuesday, April 28.

Morning

The meeting was called to order at 10:30 a. m.

Same attendance as at the preceding session.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (11)

- A. Discount rates and open market operations.
2. Report on open market operations.

Governor Harrison furnished each of the Governors with a report to be presented by him to the Open Market Policy Conference. This report reviewed open market operations during the past year in connection with business, banking, and credit transactions generally, and emphasized the importance of an affirmative system policy in the light of those conditions. (See also Governor Harrison's report sent to each Governor with his letter of May 7, 1931).

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (12)

- B. Gold.
 1. Its effect, if any, upon the present depression.

Governor Harrison discussed the effect of recent gold imports and the probable effect of impending and continued gold imports from European countries. He stressed the importance of some effort being made to retard the flow of gold into this country, or at least to make useful gold

which is imported rather than to have all imports of gold nullified by pro tanto reductions in Federal Reserve credit, as has been the case for the past fifteen months.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (13)

B. Gold.

2. Desirability of publication of separate reserve percentages against notes and deposits.

There was a general discussion of the present policy and practice of publishing only the reserve percentages against combined notes and deposits, and the possible advantage of setting aside a definite, although perhaps arbitrary, amount of gold as reserve against Federal Reserve notes and the balance of the gold held by the Federal Reserve banks as a reserve against deposits with perhaps a minimum percentage, so that the ratio of gold reserves to deposits might serve as a better indicator of the volume and velocity of bank credit in use in the country. No action was taken.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (14)

E. Treasury financing.

1. Treasury bills, certificates, and long time bonds.

Honorable Ogden L. Mills, Undersecretary of the Treasury, entered the conference at 11:10 a. m., and dis-

cussed some of the problems confronting the Treasury in connection with current and long time financing.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (15)

D. Desirability of flexibility of interest rates paid on deposits and of bank dividends.

The general tendency on the part of banks in some communities to reduce the rate of interest paid on deposits was commended as good banking policy at this time. It was the sense of the conference that where the advice of officers of the Federal Reserve System was solicited, it would be desirable and helpful to point out to inquiring member banks specific instances where the reduction of interest rates on deposits has proven beneficial.

While the reduction in the rates of dividends paid by member banks would also be very helpful in many instances, it was felt that this is a matter that should be left with the directors of the member banks.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (16)

C. Relations with foreign banks.

1. Report.
2. Operations.
3. Credit and economic conditions in principal foreign countries.
4. Silver.

Governor Harrison reported informally on the

various matters relating to operations with foreign central banks, commenting particularly on the depressed economic conditions abroad, as reflected in the unfavorable trend of imports and exports in those countries where statistics were available, and the situation with respect to silver.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (17)

F. Possible desirability of amending Federal Reserve Act so as to permit a Federal Reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper.

There was a general discussion in which it developed that some broadening of eligibility requirements as an emergency measure under proper restrictions and regulations might be desirable. Action was deferred until the session on Wednesday morning.

At 1:15 p. m. the conference adjourned to reconvene at 9:30 a. m. Wednesday, April 29.

Third Day's Session, Wednesday, April 29.

Morning

The meeting was called to order at 9:45 a. m. with the same attendance as at the preceding session.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (18)

F. Possible desirability of amending Federal Reserve Act so as to permit a Federal Reserve bank in emergencies to make advances to member banks on the security of assets other than presently eligible paper.

The discussion begun at the previous session was resumed, and it was

VOTED that it is the sense of the conference that it would be desirable to amend Section 13 of the Federal Reserve Act so as to make it possible for Federal Reserve banks to make advances to their member banks on their promissory notes when secured either by collateral now defined as eligible collateral under the terms of Section 13, or when secured by the deposit or pledge of debentures of Federal Intermediate Credit Banks which have a maturity of not more than six months, or in the case of an emergency when secured by other assets subject to the discretion of the Board of Directors of the Federal Reserve bank and subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board. It was the understanding of the conference that when such notes of member banks are secured by notes, drafts, bills of exchange, or bankers' acceptances, such as are now eligible for rediscount or purchase by Federal Reserve banks, such promissory notes should have a maturity of

not more than 90 days sight, exclusive of days of grace, and that when secured in whole or in part by any other collateral they should have a maturity of not more than 15 days sight, exclusive of days of grace. It is the sense of the conference that if the Federal Reserve Board approves the principles involved in this resolution, it should be asked to consider what would be an appropriate time to request the necessary legislation.

Governors Calkins, Martin, and Talley voted in the negative.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (19)
G. Interim report of committee of Governors appointed at September 1930 conference to study Federal Reserve practice and procedure.

Governor Harrison, Chairman of this committee, reported that it had been impracticable for the committee to meet, and that consequently it was unable to submit a report at this time.

TOPIC I. CREDIT TRANSACTIONS AND POLICIES (20)
1. Should earnings, or lack of them, influence our investment policy.

After a short discussion, it was

VOTED that the investment policy of the Federal Reserve banks should not be influenced by earnings.

TOPIC II. OPERATION AND ADMINISTRATION (21)

A. Bank supervision and appropriate relationship of reserve banks to bank examinations and supervision.

1. Recommendation of Federal Advisory Council that "There should be imposed upon the Federal Reserve banks the requirement to keep themselves informed of the quality of the investments and loans, and the policy of the management of all member banks."

The question of bank supervision and bank examinations, and the recommendation of the Federal Advisory Council, were considered by the conference to be matters requiring careful consideration and study, and after a short discussion, it was

VOTED that the whole question be referred to the conference's committee on Federal Reserve practice and procedure for study and report to the next Conference of Governors. (The committee consists of Governor Harrison, Chairman, and Governors Norris, Young, McDougal, and Calkins.)

TOPIC II. OPERATION AND ADMINISTRATION (22)

B. Earnings and expenses of Federal Reserve banks.

1. Consideration of advisability of action to reduce expenses of operation of Federal Reserve banks, inauguration of service

charges, discontinuance of certain free services, etc., in an effort to more nearly equalize expenses and earnings.

It was the consensus of opinion that the earnings of Federal Reserve banks, as well as the advisability of action to reduce expenses of operation, were questions which could more intelligently be considered after some months of further experience, and it was

VOTED that consideration be deferred until the Fall meeting of the conference.

TOPIC II. OPERATION AND ADMINISTRATION (23)
C. Reconsideration of character of Fiscal Agency Department expense, which should be reimbursed by the Treasury Department.

After a brief discussion, it was the sense of the conference that this topic was in the same category as the preceding one, and that consideration should also be deferred until the Fall Conference of Governors.

TOPIC II. OPERATION AND ADMINISTRATION (24)
F. Advertising Federal Reserve membership.

Governors Harrison and Norris informed the conference of their experience with a corporation organized for the purpose of advertising the benefits derived from membership

in the system, the expenses of the corporation to be derived at least in part by voluntary contributions from member banks. The corporation has attempted to obtain the approval or endorsement of the Federal Reserve Banks of New York and Philadelphia. Without formal action, it was agreed that the Federal Reserve banks could not with propriety give approval or support to any agency or organization soliciting subscriptions from banks and others for the purpose of explaining or advertising the benefits derived from membership in the system.

TOPIC III. COLLECTIONS AND CLEARINGS (25)

- B. Desirability of endeavoring to get the bankers associations of the different states interested in the matter of having the American Bankers Association bank collection code adopted by their respective State legislatures.
- C. Uniform arrangement to notify all Federal Reserve banks and branches of reopening or succession of banks previously closed.
- D. Uniformity in respect to advices of final returns following "without returns" notices.

It was

VOTED to refer these topics to the Standing

Committee on Collections for study and report to the next Conference of Governors.

SUPPLEMENTARY TOPIC C. Progressive Penalty (26)
Rates.

Governor Calkins read a memorandum from Mr. Smead, Chief of the Division of Bank Operations, to Governor Meyer, subject: "Progressive penalty rates on deficiencies of member banks". It was

VOTED that the Federal Reserve Board be requested to forward a copy of Mr. Smead's memorandum, as a matter of information, to each Federal Reserve bank which now applies progressive penalty rates for continued deficiencies in reserves.

At 1:15 p. m. the conference adjourned.

H. F. STRATER

Secretary.

