

CONFIDENTIAL

SECRETARY'S MINUTES
GOVERNORS CONFERENCE

DECEMBER 1 AND 2, 1931.

WASHINGTON, D. C.

FEDERAL RESERVE BANK
OF CLEVELAND

Mr. Attebery

RECEIVED
SECRETARY TO GOVERNOR
GOVERNOR
December 21, 1931.
1931 DEC 22 AM 9 53
FEDERAL RESERVE BANK
ST. LOUIS

CONFIDENTIAL

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

Dear Governor Martin:

There is enclosed for your confidential use,
a copy of the Secretary's minutes of the Conference of
Governors held in Washington on December 1 and 2, 1931.
I shall appreciate it if you will call my attention 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

Very truly yours,

H. V. Strater

Secretary,
Governors' conference.

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By _____
When initialed
by those indicated.

- Martin _____
- Attebery *AM*
- McConkey _____
- Hull _____
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- Hollechor _____
- Wood _____
- Stewart _____
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PROGRAM
GOVERNORS CONFERENCE

December 1 and 2, 1931

Washington, D. C.

I. ELECTION OF CHAIRMAN AND SECRETARY FOR YEAR 1932
II. CREDIT TRANSACTIONS AND POLICIES

- | | | |
|----|--|--------------|
| A. | Discount rates and open market operations. | New York |
| | 1. Report of Open Market Policy Conference. | New York |
| | 2. Seasonal program covering December and year-end operations. | New York |
| | 3. Adjustment of system investments in Government securities in times of emergency. | Richmond |
| B. | Gold. | |
| | 1. Review of recent movements. | New York |
| | 2. Future policy here and abroad. | New York |
| C. | Relations with foreign banks. | |
| | 1. Report of foreign operations of system. | New York |
| | 2. Foreign exchanges and the gold standard. | New York |
| D. | The banking situation and bank failures. | |
| | 1. National Credit Corporation. | New York |
| | 2. Proposed Real Estate Mortgage Discount Corporation. | New York |
| | 3. Policies of bank examiners. | New York |
| | 4. Recommendation to the Federal Reserve Board that at an appropriate time legislation be sought limiting the proportion of capital and surplus which a National bank may invest in building and fixtures, either by statutory designation or by requiring the approval of the Comptroller of such investment. | Philadelphia |
| E. | Intermediate Credit Banks. | |
| | 1. Cooperation of Federal Reserve Banks. | New York |

- F. Municipal finance.
 - 1. Increased burden on municipal budgets due to unemployment. New York
 - 2. Purchase of municipal warrants by Federal reserve banks. New York

III. OPERATION AND ADMINISTRATION

- A. How can we balance our budget, Kansas City
- B. Safekeeping of securities for member banks.
 - 1. The advisability of securing from all member banks depositing securities with Federal Reserve banks for safekeeping an agreement whereby the depositing bank would agree to approve and accept the insurance policy carried by the Federal reserve bank, and all liability other than that covered in the Federal reserve bank's policy would be assumed by the depositing bank, which, if it desired, could itself carry insurance against such additional liability. F. R. Board
 - 2. Cost of the safekeeping function at Federal reserve banks. F. R. Board

(See Federal Reserve Board's letters X-6940 and X-6940-a dated August 11, 1931.)
- C. Inquiries involving matters of system policy or interest. (See Federal Reserve Board's letter X-7030 dated November 23, 1931.) F. R. Board

IV. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections.

V. REPORTS OF COMMITTEES

- A. Committee on Bank Reserves.
- B. Insurance Committee.
- C. Leased Wire Committee.
- D. Pension Committee.
- E. Sub-committee of General Committee
on Bankers Acceptances.

SUPPLEMENTARY TOPIC. Report of Committee on group,
branch, and chain banking.

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

December 1 and 2, 1931.

Washington, D. C.

First Day's Session. Tuesday. December 1.

Morning

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

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

Mr. Strater, Secretary.

TOPIC I. ELECTION OF CHAIRMAN AND SECRETARY FOR THE (1)
YEAR 1932.

VOTED that Governor Calkins be re-appointed Chairman,
and Mr. Strater re-appointed Secretary for the calendar year 1932.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (2)

A. Discount rates and open market
operations.

1. Report of open market opera-
tions.

2. Seasonal program covering
December and year-end oper-
ations.

Governor Harrison, Chairman of the Open Market Policy Con-
ference, furnished to each of the Governors a report of open market
operations for System Account, showing changes in the holdings of Gov-
ernment securities and bills, and the changes in the participations of
the individual Reserve banks.

There was a general discussion of discount rates in relation
to, and as they might be affected by, open market operations.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES.

(3)

3. Adjustment of system investments
in Government securities in times
of emergency.

Governor Seay outlined his views regarding the necessity for some provision being made for any Reserve bank which finds it necessary to dispose of its participations in Government securities held for System Account, particularly in the event that its proportion could not be absorbed by the other participating banks.

It was the sense of the conference, as previously recommended by the Executive Committee of the Open Market Policy Conference, that in any case where a Federal Reserve bank needs to adjust its position on account of its reserve ratio, it should offer for participation among other Federal Reserve banks some of its holdings of Bankers' acceptances, and that in any case where a Federal Reserve bank needs to adjust its free gold position, which would not be aided by a sale of Bankers' acceptances, it should offer for participation to the other Federal Reserve banks some of its holdings of Government securities. If in the latter case such necessary offerings of Government securities are not accepted by other Federal Reserve banks, then it is clearly within the authority of the Reserve bank needing accommodation to sell such Government securities in the open market. It was generally understood, however, that no Federal Reserve bank, so long as it is a member of the Open Market Policy Conference, should sell its holdings of Government securities in the market as a matter of credit policy contrary to the approved policy of the Open Market Policy Conference. The right to buy or sell securities in the market as an emergency was generally agreed to by all the Governors present.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (4)
B. Gold.

1. Review of recent movements.
2. Future policy here and abroad.

Governor Harrison discussed the recent unprecedented withdrawal of gold from the United States by foreign countries, and the factors which entered into the apparent halting of these withdrawals which had continued for a period of five or six weeks, ending at the close of October.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (5)
C. Relations with foreign banks.

1. Report of foreign operations of the system.
2. Foreign exchanges and the gold standard.

Governor Harrison discussed the various matters relating to the operations of the system with foreign central banks, also the status of principal foreign countries with respect to the gold standard, and furnished each of the Governors with a memorandum entitled "The Credit Crisis of 1931," giving in detail a history of the crises in various foreign countries and the events leading up to the abandonment or suspension of the gold standard in many of them.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (6)
D. The banking situation and bank failures.
1. National Credit Corporation.

There was a general discussion of the activities of the corporation, and the present status of its operations.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (7)
D. The banking situation and bank failures.
2. Proposed Real Estate Mortgage Discount Corporation.

There was a general discussion of the effect of such a corporation on the commercial banking situation. It was generally the

opinion that the proposed limitations would make the corporation of relatively little direct benefit to commercial banks of the country.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (8)
D. The banking situation and bank failures.
3. Policies of bank examiners.

There was a general discussion of this topic, and it was the consensus of opinion that it is very important that the supervisory authorities exercise the greatest care and their best judgment to the end that no possibility of keeping solvent banks in operation is overlooked.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (9)
D. The banking situation and bank failures.
4. Recommendation to the Federal Reserve Board that at an appropriate time legislation be sought limiting the proportion of capital and surplus which a National bank may invest in building and fixtures, either by statutory designation or by requiring the approval of the Comptroller of such investment.

After a general discussion, it was VOTED that in connection with recent bank troubles, the Governors have been impressed by the excessive proportion of the capital structures invested, in many cases, in banking quarters. The conference therefore suggests to the Federal Reserve Board the advisability of considering legislation which will secure some effective check upon investments of this kind by member banks.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (10)
E. Intermediate Credit Banks.
1. Cooperation of Federal Reserve Banks.

The suggestion with respect to Intermediate Credit Bank

debentures made by the Federal Advisory Council to the Federal Reserve Board at its meeting on November 16 was read, and it was

VOTED that it is the sense of the conference that it concurs in the recommendation of the Advisory council with respect to Intermediate Credit Bank debentures, and approves the council's suggestion that the Federal Reserve Board consider the possibility of recommending to Congress that debentures issued by Intermediate Credit Banks be made eligible as security for promissory notes discounted by member banks with Federal Reserve banks. The conference believes, however, that such debentures should have a maturity of not exceeding six months.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES (11)

F. Municipal finance.

1. Increased burden on municipal budgets due to unemployment.
2. Purchase of municipal warrants by Federal Reserve banks.

It was the consensus of opinion that member banks should be aided by the Federal Reserve banks, when necessary, by the purchase of eligible municipal warrants. Municipal warrants of the character defined in the Regulations of the Federal Reserve Board might appropriately be purchased on a fifteen (15) day resale agreement at a rate to be determined by the purchasing Federal Reserve bank.

At 12:50 p.m. the conference adjourned to reconvene at 2:30 p. m.

First Day's Session. Tuesday. December 1.

Afternoon.

The meeting was called to order at 2:35 p. m.

Same attendance as at the morning session.

TOPIC III. OPERATION AND ADMINISTRATION (12)
A. How can we balance our budget?

There was a general discussion as to the attitude of the several Governors regarding salary reductions, omission of dividends, and the suspension of free services to member banks. In this connection, it was pointed out that in all districts salary scales are already at best only equal to, and in many cases lower than, salaries paid by commercial institutions for comparable work. In view of that fact, and the further fact that the reserve banks do not provide bonuses, or give other advantages such as obtain at commercial institutions, especially during more prosperous periods, it would be unjust and disorganizing to reduce salaries in periods of depression.

It was the sense of the conference that, although it now appears that the gross earnings of the Federal Reserve banks will not be sufficient to provide for expenses, reserves, and dividends for the current year, it would be unwise at this time to omit the dividend on capital stock, to make any flat reductions in salaries, or to curtail free services to member banks, and that the resulting deficit should be charged to accumulated surplus. It was understood, however, that the reserve banks will continue to closely check expenses in order to keep them as low as possible without impairing operating efficiency, or the morale of the personnel.

TOPIC III. OPERATION AND ADMINISTRATION (13)
B. Safekeeping of securities for member banks.
1. The advisability of securing from all member banks depositing securities with Federal Reserve banks for safekeeping.

an agreement whereby the depositing bank would agree to approve and accept the insurance policy carried by the Federal Reserve bank, and all liability other than that covered in the Federal Reserve bank's policy would be assumed by the depositing bank, which, if it desired, could itself carry insurance against such additional liability.

The report of the Insurance Committee dealing with the subject was read and after a general discussion, it was

VOTED that it is the sense of the conference that there be no change in the method of handling safekeeping securities for the reasons given by the Insurance Committee in its report. It was thought, however, that insurance coverage should apply first to losses sustained by the Federal Reserve bank, and second to losses sustained by the depositing member bank.

It was also informally understood that the Insurance Committee should consider the advisability of trying to arrange to have a rider attached to insurance policies to that effect.

TOPIC III. OPERATION AND ADMINISTRATION (14)

B. Safekeeping of securities for member banks.

2. Cost of the safekeeping function at Federal Reserve banks.

No action was taken on this topic.

TOPIC III. OPERATION AND ADMINISTRATION (15)

C. Inquiries involving matters of system policy or interest.

After discussion, it was

VOTED that it is the sense of the conference that the Federal Reserve banks should continue, as in the past, to refer matters of

system policy or interest to the Federal Reserve Board before replying to circular inquiries on such questions.

TOPIC V. REPORTS OF COMMITTEES (16)
A. Committee on Bank Reserves.

At the invitation of the Conference, Governor Meyer and Messrs. Hamlin, James, McGhee, and Miller of the Federal Reserve Board, together with Messrs. Harrison, Morrill and Wyatt, and Messrs. Smead, Goldenweiser and Riefler here entered the meeting and joined in the discussion which followed.

At 6:00 p. m. the conference adjourned to reconvene at 10:00 a. m. on Wednesday, December 2.

Second Day's Session - Wednesday, December 2, 1931.

Morning

Meeting was called to order at 10:20 a. m.

Same attendance as at the preceding session.

TOPIC V. REPORTS OF COMMITTEES (17)
A. Committee on Bank Reserves.

The discussion of the report of the Committee on Bank Reserves begun at the previous session was concluded, and it was

VOTED that the conference expresses its appreciation of the work done by the Committee on Bank Reserves in preparing a very comprehensive report, but feels that further study of the report should be made by each bank pending the next conference, at which time it will be fully considered and a recommendation made to the Federal Reserve Board.

TOPIC V. REPORTS OF COMMITTEES (18)
B. Insurance Committee.
C. Leased Wire Committee.
E. Sub-committee of General Committee on Bankers' Acceptances.

The committee reports were read, and it was VOTED that they be accepted and placed on file.

TOPIC V. REPORTS OF COMMITTEES (19)
D. Pension Committee.

The Pension Committee's report was read and, after a general discussion, it was

VOTED that the report be accepted and action postponed pending a further effort to obtain a Federal charter through the introduction of a Bill in Congress.

TOPIC IV. COLLECTIONS AND CLEARINGS (20)
A. Report of Standing Committee on Collections.

The Secretary outlined briefly the committee's recommendations on the topics submitted to it for consideration by the Conference of Governors of April 27 - 29, 1931.

- (21)
1. Desirability of definition by the Treasury Department of the rights, duties, and responsibilities of Federal Reserve banks in cashing Government checks and warrants.

It was

VOTED to refer this matter to the Conference of Counsel for Federal Reserve banks for consideration and consultation with the Standing Committee on Collections and officials of the Treasury Department, with a view to obtaining a clarification of the applicable provisions of Treasury Department Circular No. 176, with respect to the duties and responsibilities of the Federal Reserve banks in cashing Government

checks and warrants.

(22)

2. Uniform arrangement to notify all Federal Reserve banks and branches of reopening or succession of banks previously closed.

After discussion, it was

VOTED that each Federal Reserve bank report to all other Federal Reserve banks by wire daily the closing, reopening or succession of all banks in their district so far as they have such information.

With respect to the other topics covered by the committee's report, it was

VOTED that the report be accepted and filed.

SUPPLEMENTARY TOPIC. REPORT OF THE COMMITTEE ON GROUP, (23)
BRANCH, AND CHAIN BANKING

At the invitation of the conference, Doctor Goldenweiser submitted a brief oral report of progress, and provided each of the Governors with a copy of the material accumulated by the committee.

The following resolution was unanimously adopted: (24)

"The conference has heard with great regret the announcement from Governor Bailey that it is his purpose to retire from the Governorship of the Federal Reserve Bank of Kansas City at the end of the year, and we all tender him our most sincere good wishes for many more years of health, usefulness, prosperity, and happiness."

At 1:00 p. m. the conference adjourned.

H. F. STRATER

Secretary.

