

CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

October 10, 11, and 12, 1933.

Washington, D. C.

FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BANK
OF CLEVELAND
1933 NOV 16 PM 12 25
RECEIVED
SECRETARY TO GOVERNOR
& DEPUTY GOVERNOR
November 15, 1933.

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

Dear Governor Martin:

My attention has been called to the typographical error on page eleven, paragraph thirty, of the Secretary's minutes of the last Governors' Conference which were recently sent to you. This paragraph refers to "more than 200 applications which are now held at the Federal Reserve Board" whereas this should have been "at the Federal Reserve banks".

I am enclosing copy of revised page eleven which please substitute for the page similarly numbered in the copy of the minutes sent to you.

Very truly yours,

*Substituted - 11/16/33
RAB*



Secretary,
Governors' Conference.

encl. 1

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November 2, 1935.

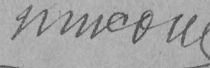
Mr. H. F. Strater, Secretary,
Governors' Conference,
Federal Reserve Bank,
Cleveland, Ohio.

Dear Mr. Strater:

I have received your letter of November 2
and have gone over the attached minutes of the Governors'
Conference held in Washington on October 10, 11 and 12,
1935.

It seems to me that the minutes cover the
proceedings adequately.

Yours sincerely,



Governor.

Return on.....

To.....

Their reply

is dated.....

FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BANK
OF ST. LOUIS
1933 NOV 3 AM 8 55

November 2, 1933.

RECEIVED
SECRETARY TO GOVERNOR
& GOVERNOR

CONFIDENTIAL

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

Dear Governor Martin:

There is enclosed a copy of the Secretary's minutes of the Conference of Governors held in Washington on October 10, 11, and 12, 1933.

I shall appreciate it if you will call my attention to any errors which should be corrected or omissions from the record which you may detect, and hope you will feel free to suggest any changes you think necessary.

Kind personal regards.

Very truly yours,



Secretary,
Governors' Conference.

encl. 1

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October 10, 11, and 12, 1933.

Washington, D. C.

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- II. CREDIT TRANSACTIONS AND POLICIES
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- A. Policy regarding issuance of Federal Reserve Bank notes.

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- B. Applications from nonmember State banks for membership in the Federal Reserve System are becoming very numerous, and the Board understands that more than 200 applications are now held at the Federal reserve banks, which have not yet been forwarded to the Federal Reserve Board with recommendations - about 47 applications are awaiting action by the Federal Reserve Board. F. R. Board
- C. Interpretation of Banking Act of 1933 as it applies to issuance of preferred stock by National banks having a capital of less than \$50,000; also, the effect of charging off losses and bond depreciation on the common capital structure of such bank. Kansas City
- D. Publication of report of Committee on Branch Banking. Atlanta

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

October 10, 11, and 12, 1933.

Washington, D. C.

First Day's Session, Tuesday, October 10.

Morning

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

Present: Governor Calkins, Chairman, and Governors Young, Harrison, Norris, Fancher, Johns, Martin, Geery, Hamilton, and McKinney; Deputy Governors McKay and Peple.

Also the following members of the Federal Reserve Board: Governor Black and Messrs. Hamlin, James, Miller, Szymczak, Thomas, and O'Connor.

Mr. Strater, Secretary.

Dr. Goldenweiser of the Board's staff distributed a (1)
confidential memorandum on Business and Credit Developments, which
he explained in detail.

Governor Black discussed with the Conference the pro- (2)
gress of plans to strengthen the capital structure of weakened mem-
ber banks to place them in a satisfactory condition for membership
in the Federal Deposit Insurance Corporation. He also stated that
plans for liquifying part of the frozen deposits in banks closed
during the year were being formulated, and suggested that the Con-
ference ask Mr. Henry Bruere to confer with the Governors.

At 11:30 a. m., upon the invitation of the Conference, (3)
Mr. Bruere entered the meeting and discussed tentative plans for
the release of a substantial part of the frozen deposits in banks

closed since January 1, 1933. These plans involve the extension of credit based upon the assets of these closed banks on a liberal and expeditious basis through an appropriate agency.

The members and staff of the Federal Reserve Board and Mr. Bruere retired from the Conference at 12:25 p. m.

The Chairman was requested to send a telegram to Governor McDougal expressing the Governors' regret at his inability to be present and their cordial wishes for his speedy recovery. (4)

At 1:00 p. m. the Conference adjourned to reconvene at 2:30 p. m.

First Day's Session, Tuesday, October 10.

Afternoon

The meeting was called to order at 2:40 p. m. as the Federal Open Market Committee, with Governor Harrison presiding.

At 6:00 p. m. the meeting adjourned to reconvene at 10:00 a. m. on Wednesday, October 11, 1933.

Second Day's Session, Wednesday, October 11, 1933.

Morning

The meeting was called to order at 10:45 a. m. as the Federal Open Market Committee, with Governor Harrison presiding, and adjourned at 11:45 a. m. to reconvene immediately as the Governors' Conference.

The attendance of the Governors was the same as at the previous day's session.

TOPIC I. ELECTION OF CHAIRMAN AND SECRETARY FOR THE
YEAR 1934

VOTED that Governor Calkins be reappointed Chairman, (5)
and Mr. Strater be reappointed Secretary, for the calendar year 1934.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES

D. Elimination from Treasury Circular 92 of
customers paper as acceptable war loan
collateral.

After discussion, it was (6)

VOTED that the Conference recommends to the Treasury
Department that this class of paper be eliminated as acceptable
for war loan deposits.

TOPIC III. LEGISLATIVE PROBLEMS

A. Extension of Provision for 10(b) loans.

The Conference gave consideration to the effectiveness (7)
of this provision during the recent banking crisis, and discussed
informally the discount rate on this class of loans. It was the con-
sensus of opinion that the provision serves a useful purpose in
providing additional credit based upon good assets but which are
ineligible for rediscount. It was

VOTED that the Conference recommends that the pro-
vision be extended for one year after March, 1934, under the
discretionary powers granted to the President.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES
A. Discount rates and open market operations.
1. Open market policy.

As the open market policy had been carefully considered (8)
by the Federal Open Market Committee, and an appropriate recom-
mendation made by the committee to the Federal Reserve Board, after
a further general discussion, the topic was passed without action.

At 1:00 p. m. the Conference adjourned to reconvene at
2:30 p. m.

Second Day's Session, Wednesday, October 11, 1933.

Afternoon

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

Same attendance as at the morning session.

TOPIC II. CREDIT TRANSACTIONS AND POLICIES
A. Discount rates and open market operations.
2. Discount rates.

After discussion, this topic was passed without action. (9)

TOPIC II. CREDIT TRANSACTIONS AND POLICIES
B. Gold.

Governor Harrison presented data relating to the pro- (10)
duction and distribution of newly-mined gold and international gold
movements.

Topic II. CREDIT TRANSACTIONS AND POLICIES
C. Relations with foreign banks.
1. Foreign exchanges.

Governor Harrison discussed the developments in foreign (11)
exchanges, and acquainted the Governors with the status of the

Central bank credit to the National Bank of Hungary and the pending negotiations for a renewal.

Governor Harrison also discussed, at the request of (12) several of the Governors, the matter of reimbursement for expenses incurred by the Federal Reserve Bank of New York in handling transactions for foreign banks. The practice has been to deduct these expenses from the earnings accrued from the purchase of foreign bills. Inasmuch as the volume of these purchases has steadily fallen off, and the earnings are now inadequate to take care of expenses, it was

VOTED to be the sense of the Conference that the Federal Reserve Bank of New York be reimbursed on a pro rata basis for these expenses.

TOPIC IV. OPERATION AND ADMINISTRATION

D. Admission of banks to Deposit Insurance and to Federal Reserve membership.

1. What should be the course regarding admission of insolvent National and State member banks to temporary insurance fund.

After discussion, this topic was passed without action (13) as having been adequately covered in the discussions of the previous day's session.

TOPIC IV. OPERATION AND ADMINISTRATION

E. Fiscal Agency operations.

1. Reimbursement for Fiscal Agency expenses.
2. Operations for various Government instrumentalities.

Discussion of these topics revealed that reimbursement (14)

for actual out-of-pocket expense by the Treasury was gradually becoming less, and that there was a possibility of the Reserve banks being requested to absorb at least a part of actual expenses incurred in the operations performed for other governmental agencies.

It was

VOTED that a committee be appointed to confer with the Federal Reserve Board and a representative of the Treasury to arrive at some equitable basis for reimbursement for Fiscal Agency expenses, and to report back to the Conference.

Thereupon the Chairman appointed the following committee: Governors Fancher, Martin, and McKinney.

TOPIC IV. OPERATION AND ADMINISTRATION

J. Setting up reserves for losses.

There was a general discussion of the propriety of setting up such reserves, and Governor Harrison agreed to advise the other Governors as to certain items which should be taken into consideration. (15)

APPOINTMENTS TO FILL VACANCIES ON STANDING COMMITTEES

The death of Mr. E. R. Kenzel has created vacancies on several standing committees of the Governors' Conference. After discussion, it was (16)

VOTED that Mr. L. R. Rounds, Deputy Governor of the Federal Reserve Bank of New York, be appointed a member of the Insurance Committee and its Chairman, and that Dr. W. R. Burgess, Deputy Governor of the Federal Reserve Bank of New York, be appointed a

member of the following committees and Chairman of each:

Committee for the Study of American Acceptance
Practice;
General Committee on Bankers Acceptances;
Sub-committee of General Committee on Bankers
Acceptances.

The Chairman reported that, with the approval of the individual Governors and in order to expedite the work of the committee, he had appointed Mr. L. R. Rounds, Deputy Governor of the Federal Reserve Bank of New York, a member of the Pension Committee and its Chairman.

TOPIC V. COIN, CURRENCY, AND CIRCULATION
A. Policy regarding issuance of
Federal Reserve Bank notes.

In the light of the informal discussion with the Federal Reserve Board during the previous day's session, it was (17)

VOTED that those Federal reserve banks that have not brought up their Federal reserve bank note circulation to approximately one-tenth of their Federal reserve note circulation proceed to do so as soon as possible.

Governor Hamilton and Deputy Governor McKay voted in the negative, and Deputy Governor Peple asked to be recorded as not voting.

TOPIC IV. OPERATION AND ADMINISTRATION
A. Federal Reserve exchange and
transfer drafts.

Discussion developed that the exchange draft was (18)

actively used by many member banks during the recent banking crisis, and was still the only exchange medium available to a number of smaller member banks which do not carry accounts with many correspondent banks. It also developed that the transfer draft has not been in active use for a number of years. It was therefore

VOTED that the use of transfer drafts be abolished and the use of exchange drafts be continued, with no change in form or procedure, pending further consideration at a future Conference.

TOPIC IV. OPERATION AND ADMINISTRATION

B. Franchise tax for last half of 1932.

General discussion pertaining to the possibility of (19)
obtaining a refund from the Treasury of the franchise tax for the last half of 1932. No action was taken.

TOPIC IV. OPERATION AND ADMINISTRATION

G. Reimbursement by the Treasury for extraordinary expenses during and immediately after bank holiday.

H. Reimbursement for Gold Abrasion.

After a general discussion, it was

VOTED that the committee appointed to confer with the (20)
Federal Reserve Board and the Treasury, in regard to reimbursement for Fiscal Agency expenses, take up these matters at the same time.

TOPIC IV. OPERATION AND ADMINISTRATION

I. Increasing cost of auditing.

Governor Hamilton stated that this was probably an indi- (21)
vidual problem, so the topic was passed without action.

TOPIC V. COIN, CURRENCY, AND CIRCULATION

B. Responsibility for loss arising from disappearance of incomplete Federal Reserve notes from Bureau of Printing and Engraving.

Governor Geery stated that a sheet of twelve incomplete Federal Reserve notes in the \$100 denomination had disappeared from the Bureau of Printing and Engraving on March 11, 1933. The sheet of incomplete notes had apparently come into the possession of some one who had counterfeited the seal and supplied a serial number before disposing of them. Several of the counterfeit notes had been detected when they were sent in for redemption to the Treasury Department, and the Treasury had asked the forwarding Federal reserve bank to absorb the loss. No action was taken as it was understood that the Federal Reserve Board and the Treasury had the matter under consideration. (22)

SUPPLEMENTARY TOPIC C. Interpretation of Banking Act of 1933 as it applies to issuance of preferred stock by National banks having a capital of less than \$50,000; also, the effect of charging off losses and bond depreciation on the common capital structure of such bank. (23)

Governor Hamilton asked the Conference to consider this topic, particularly as a ruling of the Comptroller of the Currency and the Federal Reserve Board will not permit reduction of common capital for the purpose of removing criticized assets below an amount that would reduce the combined common and preferred capital

to less than \$50,000. After a general discussion, it was

VOTED that Governor Hamilton be appointed a committee of one to discuss the matter with the Federal Reserve Board and the Comptroller of the Currency, and to report to the several Federal reserve banks.

TOPIC VI. REPORTS OF COMMITTEES
A. Insurance Committee.

VOTED that the report be accepted and filed. (24)

TOPIC VI. REPORTS OF COMMITTEES
B. Pension Committee.

VOTED that the report be accepted and filed. (25)

Governor Fancher read a letter from Mr. Rounds in which (26)
he stated that the funds appropriated for the Pension Committee were almost exhausted, and asked for a further appropriation of four or five thousand dollars to complete the Pension Plan.

VOTED that the Pension Committee be authorized to expend not in excess of five thousand dollars for the completion of its work.

TOPIC VI. REPORTS OF COMMITTEES
C. Committee on Development of
Acceptance Practice.

VOTED that the report be accepted and filed. (27)

TOPIC VI. REPORTS OF COMMITTEES
D. Sub-committee of General Committee
on Bankers Acceptances.

VOTED that the report be accepted and filed. (28)

The Conference adjourned at 4:45 p. m. to reconvene at 10:00 a. m. Thursday, October 12, 1933.

Third Day's Session, Thursday, October 12, 1933.

Morning

The meeting was called to order at 10:20 a. m.

Same attendance as at previous session.

Governor Black entered the meeting and requested that the Governors include the following topics and make appropriate recommendations:

1. Whether employees who have been in the service of a Federal reserve bank for a long period and whose services are discontinued should be continued on the payroll of the bank at a nominal salary, or on a leave of absence without pay, in order that they may have the benefit of any Pension Plan which may be adopted by the Federal reserve banks in the near future; (29)
2. Applications from nonmember State banks for membership in the Federal Reserve System are becoming very numerous, and the Board understands that more than 200 applications are now held at the Federal reserve banks, which have not yet been forwarded to the Federal Reserve Board with recommendations - about 47 applications are awaiting action by the Federal Reserve Board. (30)

Governor Black stated that the Board felt it was essential that pending applications be disposed of as promptly as possible, and that steps have already been taken to expedite action on the applications now before the Federal Reserve Board.

Governor Black then retired, and the Conference proceeded to the consideration of the remaining topics on its program.

TOPIC IV. OPERATION AND ADMINISTRATION

C. Policy in handling subscriptions for
Intermediate Credit Bank debentures
referred to in Governor Morgenthau's
letter of September 26.

There was a general discussion of the policy involved (31)
in the Federal reserve banks undertaking to accept subscriptions
for Intermediate Credit Bank debentures in view of the fact that
these debentures are not direct obligations of the United States
Government, and the possibility that the reserve banks may be
asked to handle subscriptions for other security issues by other
Governmental agencies; and it was

VOTED that the Chairman appoint a committee to dis-
cuss Governor Morgenthau's letter to the Federal Reserve Board,
requesting that the Federal reserve banks be asked to handle sub-
scriptions to Intermediate Credit Bank debentures, with the Under-
secretary of the Treasury and to report back to the Conference.
The Chairman thereupon appointed Governor Fancher a committee of
one to communicate with the Undersecretary as promptly as possible
and to report back to the Conference.

Later, Governor Fancher reported that he had conferred
with Undersecretary Acheson and the Undersecretary felt that further
consideration should be given to the subject by the Treasury, Gov-
ernor Morgenthau, and the Governors. It was therefore

VOTED that the Chairman appoint a committee of two to
give this matter further consideration in cooperation with repre-
sentatives of the Treasury Department and Governor Morgenthau, and

to report back to the individual Federal reserve banks; and that the Federal Reserve Board be requested to ask Governor Morgenthau to defer his request that the Federal reserve banks act as agents in handling subscriptions for Intermediate Credit Bank debentures until after the subject had been further considered. The Chairman thereupon appointed the following committee to represent the Governors: Governor Norris and Doctor Burgess.

SUPPLEMENTARY TOPIC D. Publication of Report of
Committee on Branch Banking.

Governor Johns requested that the Conference consider (32) the propriety of making public the report of the Committee on Branch Banking which was prepared for confidential use only. During the discussion, it developed there was some possibility of the report being circulated as a public document; and further that the Committee on Branch Banking, having completed the work assigned to it, had been discharged before the banking crisis. Inasmuch as conditions have radically changed since the banking holiday was declared, it seemed desirable that a further study of branch banking should be conducted in order to bring the report up to date. It was therefore

VOTED that the Conference recommends to the Federal Reserve Board that the Committee on Branch Banking be reconstituted to make a further study of the question and revise its report, and submit it to the Governors' Conference.

SUPPLEMENTARY TOPIC A. Whether employees who have (33)
been in the service of a
Federal reserve bank for
a long period and whose
services are discontinued
should be continued on the
payroll of the bank at a
nominal salary, or on a
leave of absence without
pay, in order that they
may have the benefit of
any Pension Plan which
may be adopted by the Fed-
eral reserve banks in the
near future.

It was

VOTED that it is the sense of the Conference that pending the adoption of a Pension Plan the Federal reserve banks may, with the approval of the Federal Reserve Board, extend the employment of a member of its staff with or without compensation depending upon the circumstances, in order that the employee's name may not be removed from its list of employees and thereby preserve eligibility for benefits under the Pension Plan.

SUPPLEMENTARY TOPIC B. Applications from nonmember (34)
State banks for membership
in the Federal Reserve Sys-
tem are becoming very numer-
ous, and the Board understands
that more than 200 applica-
tions are now held at the
Federal reserve banks, which
have not yet been forwarded
to the Federal Reserve Board
with recommendations - about
47 applications are awaiting
action by the Federal Reserve
Board.

After a general discussion of the reasons for delay in

forwarding applications for membership to the Federal Reserve Board, it was

VOTED that it is the sense of the Conference that under present circumstances particularly, it is most important that final action be taken on all applications for membership in the Federal Reserve System as soon as possible, and that the Governors will cooperate with the Federal Reserve Agents to that end to the fullest possible extent in order to expedite the final disposition of every application.

TOPIC IV. OPERATION AND ADMINISTRATION

(35)

E. Fiscal Agency Operations.

1. Reimbursement for Fiscal Agency expenses.

H. Reimbursement for Gold abrasion.

Governor Fancher, Chairman of the committee appointed at the first day's session on October 10, reported that the matters had been discussed with the Federal Reserve Board, and the committee learned that the Board was already negotiating with the Treasury Department in this connection, and that it did not seem advisable for the committee to approach the Treasury Department at this time. After a general discussion, it was

VOTED that the committee continue to work with the Federal Reserve Board in the consideration and discussion of this subject, and submit its findings to the several Federal reserve banks.

TOPIC IV. OPERATION AND ADMINISTRATION

G. Reimbursement by the Treasury for
extraordinary expenses during and
immediately after the bank holiday. (36)

Governor Fancher, Chairman of the committee appointed at the first day's session on October 10, reported that this matter had also been discussed with the Federal Reserve Board, and called attention to a telegram sent by Assistant Secretary of the Treasury Douglas on April 22, 1933. After a general discussion, it was

VOTED that the Treasury be requested to fully reimburse the Federal reserve banks for extraordinary expenses during and immediately after the bank holiday, in accordance with the telegram of Assistant Secretary of the Treasury Douglas dated April 22, 1933.

At 12:15 p. m., at the invitation of the Conference, (37) the Federal Reserve Board entered the meeting and the Chairman of the Conference advised the Board of the action taken by the Conference.

At 12:50 p. m., the Conference adjourned.

H. F. STRATER,

Secretary.

