

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

May 27 and 28, 1935

Washington, D. C.

First Day's Session, Monday, May 27

Afternoon

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

Present: Governors Young, Harrison, Norris,
 Fleming, Seay, Newton, Schaller,
 Martin, Geery, Hamilton, McKinney,
 and Deputy Governor Day.

Mr. Strater, Secretary.

In the absence of Governor Calkins, Chairman of
the Conference, it was

VOTED that Governor Harrison be appointed Chair-
man Pro Tem.

TOPIC - DISCOUNT RATES

NEW YORK

The Board's letter X-9194, which was sent to each
of the reserve banks on May 2, 1935, was given consideration.
In connection with this topic there followed a general dis-
cussion of the effect of present rates on business conditions,
and it was the sense of the Conference that with the loans
and discounts in the Reserve System, and in the member banks
as well, at their present low level, the discount rates were
not a definite factor in the recovery program, and would not
be until there was evidence of a marked improvement in busi-
ness conditions. The topic was therefore passed without
action.

May 27-28, 1935

TOPIC - PROBLEM OF FUTURE CONTROL OF
EXCESS RESERVES.

NEW YORK

After a general discussion, it was

VOTED to be the sense of the Conference that no action is necessary or advisable at this time, but that the problem of controlling excess reserves is one which will require the utmost courage and ingenuity when the time comes for action. It was generally conceded that whatever action on the part of the Reserve System is determined upon should be taken well in advance of any credit inflationary tendency, and that action should not be postponed until statistics indicate a definite trend toward such inflation.

TOPIC - FOREIGN EXCHANGES AND GOLD MOVEMENTS.

1. Monetary stabilization. NEW YORK

Governor Harrison discussed briefly the current developments in foreign exchanges and the general trend of gold and silver movements, and also the general problems of monetary stabilization in foreign countries. It was understood that Governor Harrison would send a memorandum on each of these subjects to each member of the Conference.

TOPIC - RE-OPENING OF PRIVATE CAPITAL MARKET.

1. Security underwriting by banks.
2. Refunding.
3. New issues.

NEW YORK

Governor Harrison discussed with the Conference what has been developing in the capital market with respect to the refunding of maturing issues and the sale of new issues, and expressed the opinion that excess reserves,

regardless of how high they may become, will not make for a satisfactory re-opening of the private capital market until confidence is more fully restored.

At 3:40 p. m. Governor Harrison left the meeting and Governor Norris took the Chair.

TOPIC - FULL REIMBURSEMENT FOR ALL FISCAL
AGENCY OPERATIONS INCLUDING RE-
CONSTRUCTION FINANCE CORPORATION
SPACE IN BUILDINGS. CHICAGO
1. Report of Committee on
Reimbursable Expense.

Inasmuch as this whole question is adequately covered in a report of the Committee on Reimbursable Expense, Governor Fleming, Chairman of that committee, read its report to the Conference. Governor Fleming explained that the scope of authority of the committee appointed at a Conference of Governors held in October, 1933, was apparently limited to Fiscal Agency operations and the reimbursement by the Treasury of expenses in connection therewith.

Since the appointment of the committee, operations for other instrumentalities of the government have become so large that a number of the Federal Reserve banks have referred the matter of reimbursement for necessary expenses in connection with operations for these agencies to the committee, and the committee's work has been done as though its scope of authority included expenses incident to the operations of other instrumentalities of the government as well as for the Treasury.

The committee, in its report, requested that this Conference confirm the work which it has done as a result of developments since it was appointed in October, 1933, and that if the report met with the approval of the Conference, the committee requested that it be authorized to appoint a subcommittee of not less than eight, one of whom shall be a representative of the staff of the Federal Reserve Board, to revise the manual of Form E so that it will include methods of determining expenses which are reimbursable from the Treasury and from other instrumentalities of the government as well, in accordance with the principles set forth in the "Plan for Computing Expenses of Functions and Units of the Federal Reserve Banks Which Are or May Become Reimbursable," dated May 16, 1934.

The committee further requested that upon the approval by the Committee on Reimbursable Expense of the revised manual, which will be submitted by the proposed subcommittee, the revised manual shall become the manual of cost accounting for all Federal Reserve banks and shall be used as a basis for arriving at the amount of reimbursable expenses. After a general discussion, it was

VOTED that the report of the Committee on Reimbursable Expenses be accepted, and that the work done by the committee be ratified and approved; and further, that the committee is authorized to appoint a subcommittee for

the purposes outlined in the report; and further that, the Committee on Reimbursable Expense be, and it is, given full authority to accept the report of the subcommittee and to act thereon, such action to be the same as though taken by this Conference.

TOPIC - EXECUTIVE OFFICERS IN FEDERAL RE-
SERVE BANKS BE GIVEN WIDER LAT-
ITUDE IN ALLOWING SALARY IN AD-
VANCE TO EMPLOYEES SEVERING THEIR
CONNECTION WITH THE BANK. CHICAGO

Governor Schaller explained that the Chicago reserve bank was confronted by a difficult problem because it felt it necessary, in order to effect economies in salary expenditures, to release some employees who have been in its service for a considerable time. Such employees, would, of course, be given reasonable advance notice. However, it was his opinion that as soon as these employees were given notice, their value and usefulness would be seriously impaired.

It was the feeling of the Governors that the problem would be greatly simplified if the reserve banks were permitted, in some cases, to pay several months' regular salary in lieu of advance notice of dismissal where immediate dismissal would otherwise be a severe hardship upon the employees affected.

A general discussion of this topic brought out the fact that some of the other Federal Reserve banks were

faced with the same problem in varying degree, and that it would be very helpful, and more economical in the longer view, if the Boards of Directors, or the Executive Officers, were permitted some latitude in the payment of compensation for limited periods to employees whom it might become necessary to dismiss from the service, through no fault of their own, because they were no longer needed. It was

VOTED that it is the sense of the Conference of Governors that the Boards of Directors of the Federal Reserve banks should be permitted, in their discretion, to pay up to six months' salary to officers or employees upon their involuntary separation from the service.

TOPIC - ACTION BY FEDERAL RESERVE BOARD
ON REPORT OF GOVERNORS' CONFERENCE
UNDER DATE OF FEBRUARY 5,
1935, CONCERNING CHANGE FROM
MORSE TO TELETYPE SYSTEM IN OUR
INTER-BANK COMMUNICATIONS. CHICAGO

Governor Schaller referred to a letter addressed to him, under date of May 7, 1935, by the Secretary of the Federal Reserve Board, commenting upon the recommendations of the Leased Wire Committee contained in its report dated November 30, 1934, which was approved by the Governors' Conference at its meeting in Washington on February 5, 1935, in which certain changes are recommended in the operations of the Leased Wire System.

Governor Schaller commented particularly upon the objections raised against the use of the Teletype System and the statement that the Federal Reserve Board felt that before anything is done, a determination should be made by the Leased Wire Committee, from the standpoint of the System as a whole, as to the type of machines which should be used; the two types being a tape machine and a page machine. Mr. Morrill also suggested in his letter that the committee give special consideration to, and submit, a recommendation as to the policy which should be followed in regard to the personnel problem in the event that Teletype machines are installed.

After general discussion, it was understood that Governor Schaller will send to each of the Governors a copy of the letter from the Secretary of the Federal Reserve Board, dated May 7, 1935, together with a memorandum prepared in the Federal Reserve Bank of Chicago, with respect to this problem, and that as Chairman of the Leased Wire Committee he will endeavor to reconcile divergent views in order, if possible, to obtain an agreement as to the use of Teletype machines; and failing in this, another report by the Leased Wire Committee on this subject be submitted to the next Governors' Conference.

Governor Harrison returned at 4:55 p. m., and at his request Governor Norris continued in the Chair.

TOPIC - DESIRABILITY OF RETIREMENT SYSTEM
OF FEDERAL RESERVE BANKS INCLUD-
ING FIRST MORTGAGE REAL ESTATE
LOANS IN ITS INVESTMENTS AND AD-
VISABILITY OF RESERVE BANKS MAK-
ING AND SERVICING SUCH LOANS ORIG-
INATING IN THEIR RESPECTIVE DIS-
TRICTS UNDER AGREEMENT BETWEEN
RETIREMENT SYSTEM AND RESERVE
BANKS.

DALLAS

This topic was placed on this program by Governor McKinney of the Federal Reserve Bank of Dallas. It was understood that this was in effect a request from the chairman of a committee appointed by the Board of Trustees of the Retirement System to obtain the views of Governors of Federal Reserve banks, first as to the desirability of investing the funds of the Retirement System in real estate mortgages, and second as to whether the Federal Reserve banks would be willing to select and service such loans. After general discussion, it was

VOTED that the Governors' Conference sees no objection to the investment by the trustees of the Retirement System of a reasonable proportion of the Retirement System's funds in first mortgages on real estate, provided proper machinery can be set up to select and service them, and that it is the sense of the Conference that while the Federal Reserve banks could, and would, contribute any information in their power, they can not be expected at this time to select or service such mortgages.

TOPIC - GENERAL DISCUSSION OF THE PRACTICABILITY OF HOLDING DIRECTORS' MEETINGS AT FEDERAL RESERVE BANKS ON THE SAME DATE, ESPECIALLY AT THOSE BANKS HAVING REPRESENTATION ON EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE. BOSTON

Governor Young expressed the opinion that it was frequently a somewhat difficult matter to get the members of the Executive Committee of the Federal Open Market Committee together at important meetings, due to the fact that meetings of the Boards of Directors, or of the Executive Committees, of the Federal Reserve banks were held on different days, and suggested that it would greatly facilitate the holding of meetings of the Federal Open Market Executive Committee if arrangements could be made whereby Board meetings and Executive Committee meetings at those banks represented on the Federal Open Market Executive Committee would be held on the same day of the week. After general discussion, it was

VOTED to be the sense of the Conference that if such arrangements are practicable and they can be conveniently made at the several banks represented on the Federal Open Market Executive Committee, consideration should be given to Governor Young's suggestion. It was understood that as a general thing Thursday was probably the day that would least interfere with meetings of the Federal Open Market Executive Committee.

TOPIC - UNIFORM MEDICAL EXAMINATION OF
EMPLOYEES AT FEDERAL RESERVE
BOARD AND FEDERAL RESERVE
BANKS AND BRANCHES. (Report of
Retirement Committee of Federal
Reserve Banks.) NEW YORK

After discussion, it was
VOTED that the report of the Retirement Committee
be approved and concurred in.

TOPIC - DESIRABILITY OF UNIFORM ACTION IN
HANDLING BILL OF LADING DRAFTS
COVERING INTERSTATE LIQUOR SHIP-
MENTS RECEIVED FOR COLLECTION.
(See Federal Reserve Board's
letter X-9188.) DALLAS

The Federal Reserve Board's letter X-9188, of
April 26, 1935, calls attention to the provisions of Sec-
tion 239 of the Criminal Code of the United States, which
makes it unlawful for a railroad company, or express com-
pany, or other person in connection with the transportation
of intoxicating liquor in interstate commerce, to collect
the purchase price thereof, or act as the agent for the
buyer, or the seller, for the purpose of buying, or sell-
ing, or completing the sale thereof.

Counsel for some of the Federal Reserve banks
have indicated that there are conflicting decisions in some
of the states, and that in some cases, drafts with bills of
lading attached covering interstate shipments of liquor,
might be handled without coming under the penalties imposed
by the Criminal Code. It was felt that drafts without
bills of lading attached, drawn in settlement of liquor
shipments could also be handled without coming under the

penalties imposed by the Criminal Code. After general discussion, it was

VOTED to be the sense of the Conference that until the provisions of Section 239 of the Criminal Code are repealed, or appropriately amended, the Federal Reserve banks should decline to handle drafts with bills of lading attached, covering interstate liquor shipments whenever the bill of lading attached is to be surrendered upon payment or acceptance of the draft.

TOPIC - DESIRABILITY OF UNIFORM PROCEDURE
IN HANDLING TELEGRAPHIC TRANSFERS
OF BANK BALANCES IN ROUND AMOUNTS
FOR ACCOUNT OF NONMEMBER CLEARING
BANKS OVER COMMERCIAL WIRES AT
EXPENSE OF SUCH BANKS.

DALLAS

Governor McKinney explained that under the procedure now in effect, Federal Reserve banks are prohibited from handling telegraphic transfers of funds to, or from, nonmember clearing banks. He also stated that in the opinion of the Dallas bank, permission to make these transfers would be a great convenience to nonmember banks, and that he felt they should be granted the same privileges with respect to telegraphic transfers of funds as was accorded to member banks.

After general discussion, in view of the fact that this whole question has been studied by the Standing Committee on Collections, and in view of the fact that committee had previously made specific recommendations, it was

VOTED that the question of telegraphic transfers for the account of nonmember clearing banks, over commercial wires, at their expense, be given further study by the Standing Committee on Collections, and that the committee should present its report and recommendations to the Chairman of the Governors' Conference.

Adjourned at 6:30 p. m. to reconvene at 10:00 a. m. on Tuesday, May 28.

Second Day's Session, Tuesday, May 28, 1935

Morning

Meeting was called to order at 10:05 o'clock a. m. with the same attendance as at the previous day's session.

Governor Harrison presided.

TOPIC - REPORT OF INSURANCE COMMITTEE

The report of the Insurance Committee was submitted to the Conference, and, after discussion, it was

VOTED to accept and approve the report.

TOPIC - USE OF ORDINARY MAIL FOR SHIPMENTS OF COUPONS, BONDS, SCRIP, STOCK CERTIFICATES, ETC. (See Federal Reserve Board's letter B-1063 of February 26, 1935.) F. R. BOARD

A letter from the Secretary of the Federal Reserve Board, dated May 13, 1935, addressed to Governor Calkins, Chairman of the Governors' Conference, to which was attached a memorandum containing excerpts from replies to the Board's letter B-1063 of February 26, 1935, was brought to the attention of the Conference in order that the question might be

discussed, as requested by the Secretary of the Federal Reserve Board.

There followed a general discussion of the attitude of the postal authorities, as reflected in a letter from the Third Assistant Postmaster General, addressed to the Federal Reserve Board, dated February 14, 1935; and while it was conceded that the use of the ordinary mail for transmitting valuables of any considerable amount, if it became a general practice, might result in substantial losses, it was felt that the high surcharges exacted by the postal authorities on registered mail, justified to some extent, the use of the ordinary mails for transmitting valuables of this nature, where the amount involved was relatively small. While this matter, in the opinion of the Governors, does not necessarily require uniformity of action on the part of the Federal Reserve banks, it was nevertheless

VOTED that this Conference approves the principle that money, securities, and other valuables should be adequately safeguarded by the use of registered mail for transmittal, and that each Federal Reserve bank should cooperate with the postal authorities to discourage the use of ordinary mail for the transmittal of such valuables.

TOPIC - ACTION OF THE BOARD OF TRUSTEES
OF RETIREMENT SYSTEM OF THE
FEDERAL RESERVE BANKS IN AMEND-
ING THE RULES AND REGULATIONS
OF THE RETIREMENT SYSTEM.

Governors Fleming and Geery, both members of the

Board of Trustees of the Retirement System, discussed with the Conference certain amendments to the Rules and Regulations of the Retirement System of Federal Reserve Banks, adopted by the Board of Trustees at its annual meeting on April 16, 1935, subject to the approval of the Federal Reserve Board.

It was understood that although the Rules and Regulations of the Retirement System were subject to amendment by the Board of Trustees and become effective upon the approval by the Federal Reserve Board, nevertheless, in view of the large contributions made by the reserve banks to the retirement fund, such amendments were of particular interest to the reserve banks also. After general discussion, it was

VOTED that the Conference concurs in the amendments as made by the Board of Trustees, and approved by the Federal Reserve Board.

TOPIC - KEEPING A DESCRIPTION OF SHIPMENTS
OF NEW CURRENCY SENT THROUGH THE
MAILS AND INCLUDING SOME NEW CUR-
RENCY IN ALL SHIPMENTS. (See
Federal Reserve Board's letter
X-9162 of March 25, 1935.) F. R. BOARD

At the request of the Federal Reserve Board, the letter referred to was discussed, together with the request of the Third Assistant Postmaster General; and it developed that it was the uniform practice of all of the reserve banks to keep a record of the serial numbers, particularly with respect to new bills, whenever it is possible to do so.

TOPIC - DISCUSSION OF DESIRABILITY OF
PERMITTING BANK GUARDS TO TAKE
ADVANTAGE OF THE SPECIAL RE-
TIREMENT BENEFITS OF THE RETIRE-
MENT SYSTEM AT AGE 50. KANSAS CITY

Because of the special character of the service rendered by bank guards, and the probability that their usefulness and effectiveness in many cases will become progressively less from year to year after they have attained age 50, it was the general opinion of the Governors that men of this caliber, who have spent many years in the guard service, would not be temperamentally, or by reason of past experience, able to accept clerical positions; and that in order to keep the efficiency of the guard organization at a maximum, it would be highly desirable if some arrangement could be made whereby guards might be retired at an age substantially under that provided in the Rules and Regulations of the Retirement System, as amended. It was

VOTED that the Secretary be instructed to bring this matter to the attention of the Retirement Committee of the Retirement System and request that further consideration be given to the possibility of developing some plan to this end, with a provision for payment of any additional costs by the employing bank.

Adjourned at 11:30 a. m. to reconvene immediately with the members of the Federal Reserve Board and its staff.

H. F. STRATER
Secretary.