

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, January 23, 1930 at 11:30 a.m.

PRESENT: Governor Young
Mr. Hamlin
Mr. Miller
Mr. Cunningham
Mr. Pole
Mr. McClelland, Asst. Secretary

Dr. Goldenweiser was also present at the invitation of the Governor, who stated that early this morning he understood there was some likelihood of the directors of the Federal Reserve Bank of New York voting to reduce the discount rate of the bank to 4%, and he thought the Board might like to go over current conditions with Dr. Goldenweiser. He stated, however, that just before the meeting he received information that the directors will probably not take action today.

A brief general discussion then ensued and it was understood that the Governor would arrange to have Dr. Goldenweiser discuss business and credit conditions in detail with the Board before the next directors' meeting at New York.

Dr. Goldenweiser then left the room.

The minutes of the meeting of the Federal Reserve Board held on January 21st were read and approved.

Letter dated January 20th from the Chairman of the Federal Reserve Bank of Kansas City, acknowledging receipt of advice of the Board's action on official salaries for the year 1930; the letter stating that it is agreed with Mr. H. G. Leedy, Counsel, that he shall retain his office in the bank building and pay the regular rental rate of \$3.00 per square foot for the space used.

Noted.

Matter approved on initials on January 21st, namely, letter dated

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January 21st from the Comptroller of the Currency, recommending approval of increases in the salaries of National Bank Examiners detailed to his office, as follows:

W. P. Folger	-	\$10,000 to \$11,000
C. F. Wilson	-	5,000 to 6,000
A. M. Stewart	-	5,000 to 5,500

Formally approved.

Reports of Executive Committee on letters dated January 21st from the Comptroller of the Currency, recommending approval of salaries of \$2,700 per annum each for National Bank Examiners Carlos B. Dawes and E. J. O'Brien, assigned to the Second and Ninth Federal Reserve Districts, respectively; the Board's Committee also recommending approval.

Approved.

Memorandum dated January 21st from the Director of the Division of Research and Statistics, transmitting the resignation of Mr. Carl F. Hermann, translator in the Division, effective at the close of business January 23, 1930.

Accepted.

Memorandum dated January 23rd from the Director of the Division of Research and Statistics, recommending the three months' probationary appointment of Miss Ella V. Williams as assistant draftsman in the Division, with salary at the rate of \$1,620 per annum, effective January 27, 1930.

Approved.

Letter dated January 21st from the Deputy Governor of the Federal Reserve Bank of New York, transmitting list of employees for whom the directors of that bank authorized leaves of absence with pay, on account of illness, during the month of December, where the total of such absences

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since January 1, 1929 has exceeded thirty days.

Upon motion, the salary payments involved in the leaves of absence authorized by the New York directors were approved.

Letter dated January 21st from the Assistant Federal Reserve Agent at New York, advising of arrangements under way by the Federal Trust Company of Newark, N. J. to merge the Vailsburg Trust Company of Newark, a nonmember bank.

Noted.

Report of Committee on Examinations on letter dated January 21st from the Federal Reserve Agent at Cleveland, requesting permission to have a representative of his Department of Examination make the usual credit investigation, without charge, of the Citizens Bank of Shelby, Ohio and the Shiloh Savings Bank Company, Shiloh, Ohio, at the time those institutions are under examinations by the State authorities; the Board's Committee recommending approval.

Noted, without objection.

Report of Committee on Examinations on letter dated January 21st from the Assistant Federal Reserve Agent at Cleveland, recommending approval of an application by the Geneva Savings Bank Company, Geneva, Ohio, for permission to exercise fiduciary powers, if and when authorized by the State Banking Department, a broadening of its functions within the meaning of the general condition under which it was admitted to membership in the System; the Board's Committee also recommending approval.

Approved.

Draft of telegraphic reply, prepared by Counsel, to a request received

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from the Assistant Federal Reserve Agent at Atlanta for permission to furnish a duly accredited representative of the Bureau of Investigation, Department of Justice, with a copy of the report of an examination of the Citizens Bank and Trust Company, Tampa, Florida, made by a Federal Reserve Examiner in December, 1928; the proposed reply stating the Board's position that a copy of a report of examination should not be furnished to any one except upon a valid order of a court of competent jurisdiction but that the Board has not objected to furnishing the Department of Justice with excerpts from reports of examination covering only Examiners' statements as to particular violations of criminal statutes. In the reply, it was also stated that if the representative of the Department of Justice in this case desires the report in order to obtain information regarding some specific violation of the criminal statutes there will be no objection to furnishing a quotation of the Examiner's remarks with reference thereto, if care is taken to disclose nothing of the affairs or financial condition of the member bank involved, and only such information as is pertinent to the alleged offense is included.

Upon motion, the telegram prepared by Counsel was approved.

Memorandum from Counsel dated January 21st, recommending that there be published in the next issue of the Federal Reserve Bulletin the Board's recent ruling with regard to the liability incurred by a member bank in purchasing Federal Reserve exchange and also the recent opinion of the Attorney General with regard to the branches which may be maintained by a National bank formed as a result of a conversion of a State bank or of a consolidation between a State and National bank. The Assistant Secretary called attention to the fact that on January 21st the Board transmitted a letter to the Comptroller of the

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Currency, at whose request the opinion in question was rendered, inquiring whether he sees any objection to its publication.

Accordingly, action on the opinion was deferred, but approval was given to the publication of the Board's ruling on Federal funds.

Memorandum from Counsel dated January 20th, submitting a letter from the Secretary of War confirming advice furnished the Board by Counsel for the National City Bank of New York of a statute recently enacted by the Philippine legislature, providing that any law previously enacted prohibiting the use of the word "National" by any bank, shall not apply to any National bank organized under the laws of the United States, the name of which is so distinctive that it could not reasonably be confused with the Philippine National Bank; the letter from the Secretary of War also stating that the Department knows of no reason of law or policy why the application of the National City Bank of New York for permission to establish branches at Manila and Cebu, Philippine Islands, should not be approved.

The Assistant Secretary stated that the application was also referred to the Comptroller of the Currency and the Federal Reserve Agent at New York, both of whom advise that they know of no reason why it should not be approved.

After discussion, upon motion, the following was ordered spread upon the minutes, Mr. Cunningham voting "no":

"THE NATIONAL CITY BANK OF NEW YORK, having on or about January 3, 1930, filed an Application with this Board for the purpose of obtaining authority to establish Branches in Manila and Cebu, PHILIPPINE ISLANDS, and the said Application having been considered; and it appearing that the said Application is properly made under the laws of the United States of America and should be granted, Now, therefore, it is

ORDERED, that the said Application be and it hereby is approved, and that the said Bank be and it hereby is authorized to establish Branches in Manila and Cebu, PHILIPPINE ISLANDS."

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Memorandum from Counsel dated January 18th, with regard to letter dated January 17th from the Chief of the Bureau of Insular Affairs, War Department, submitting a proposed contract to cover time deposits of Philippine Government funds in member banks of the Federal Reserve System and inquiring whether deposits made thereunder will be considered time deposits by the Board; Counsel stating that the contract was prepared after consultation with his office, and submitting draft of letter to the Chief of the Bureau of Insular Affairs advising that deposits made in member banks under the terms and conditions of the contract may be classified as time deposits within the meaning of the Federal Reserve Act.

Upon motion, the letter submitted by Counsel was approved.

Memorandum from Counsel dated January 21st, submitting a form of certificate to be used by the Board in the event it desires to comply with a request made in a letter dated January 18th from Messrs. Shearman and Sterling, attorneys for the National City Bank of New York, that they be furnished with two certified copies of an opinion of the Board's Counsel rendered in 1917 and published in the Federal Reserve Bulletin, to the effect that a foreign branch of a National bank and the parent National bank in this country are but one legal entity and the creditors of the foreign branch are creditors of the parent bank.

Upon motion, it was voted to furnish Shearman and Sterling with certified copies of the opinion requested by them.

Memorandum from Counsel dated January 22nd on letter dated January 10th from the Chairman of the Federal Reserve Bank of Atlanta, requesting approval of the payment of bills for legal services during 1929, rendered by Merrick, Schwarz, Guste, Barnett and Redmann of New Orleans, in the amount of \$3,500,

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and by Medlenka, Bruner and Chambers of Crowley, La. in the amount of \$1,500; Counsel stating that the bills appear to be reasonable for the services which the Board is advised were rendered by the two firms, but calling attention to the fact that under the ruling made by the Board in February, 1926, both cases, involving an expenditure in excess of \$1,000, should have been taken up with the Board in advance.

After discussion, upon motion, it was voted to approve payment of the two bills submitted by the Atlanta bank.

Memorandum from Counsel dated January 22nd, submitting an opinion as to the legality of the action taken by the Federal Reserve Bank of Atlanta recently in entering into a contract of indemnity whereby it agreed to guarantee The Citizens and Southern National Bank of Atlanta against any loss, not to exceed \$200,000, incurred by that bank as a result of taking over substantially all of the assets and assuming the deposit liabilities of the Atlanta Trust Company; Counsel stating that in view of all the circumstances of the case, he is of the opinion that it was within the lawful powers of the Federal Reserve Bank to enter into the contract in question as it appears to have been entered into in good faith, in order to prevent the closing of the Atlanta Trust Company, which was heavily indebted to the Federal Reserve Bank, and in the belief that it would result in less loss to the Federal Reserve Bank than would the closing of the Atlanta Trust Company.

A discussion ensued as to what, if any, expression should be made by the Board to the Atlanta bank, with the result that the Governor was requested to prepare and circulate among the members of the Board, along with Counsel's opinion, draft of such a letter to the Atlanta bank as he would recommend.

Memorandum from Counsel dated January 22nd, submitting draft of reply to

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letter dated January 17th from the President of the Bush Terminal Company, New York, N. Y., with further reference to the plan to have the Bush Service Corporation purchase the stock of the First Federal Foreign Banking Corporation, and the latter engage in the business of financing import and export transactions handled by the Bush Service Corporation through acceptances made under the provisions of Section 25 (a) of the Federal Reserve Act.

After discussion, Counsel's memorandum and the proposed letter were ordered circulated.

Memorandum dated January 22nd from the Assistant Secretary, referring to the instructions of the Board at the meeting on December 26th that steps be taken to ascertain the present ownership of the stock of the Atlantic Corporation of Boston; the memorandum stating that Mr. Drinnen, the Board's Examiner in Charge, who has recently completed an examination of the Federal Reserve Bank of Boston, advises that so far as he can learn the stock of the Corporation is still held in the name of the Atlantic National Bank and that arrangements have been made to examine the Corporation in the early spring.

Noted.

The Assistant Secretary then submitted letters received from all Federal Reserve Agents, replying to an inquiry made of them, in accordance with instructions given by the Board on December 6th, as to what, if any, State member banks in their respective districts were not examined during the year 1929 either by the State authorities or by their own examiners. The Assistant Secretary stated that in some of the cases reported the Federal Reserve Agents give what appear to be satisfactory reasons for the failure to examine and in others advise of arrangements being made for examination early this year. In a few cases, he stated, apparently no arrangements have been made for examination in

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the near future.

After discussion he was instructed, under the direction of the Governor, to acknowledge the above letters and to inquire where no suitable statement is made, as to what arrangements the Federal Reserve Agents have in mind to secure early examinations of the member banks not examined last year.

Letter dated January 22nd from the Deputy Governor of the Federal Reserve Bank of New York, advising that at the request of the Argentine Embassy, in pursuance of a decree of the President of the Argentine Republic authorizing the deposit of gold in foreign countries, an arrangement has been consummated similar to that which existed in 1925, whereby the Federal Reserve Bank will hold gold coin under earmark for their account; the letter stating that an initial deposit of \$1,000,000 was made by a New York bank on January 22nd against which that amount of gold coin has been earmarked in the name of the Argentine Embassy and a further deposit of \$1,000,000 is expected on January 24th.

Noted, without objection.

Memorandum dated January 14th from the Director of the Division of Research and Statistics, submitting information on the question whether or not the advent of cash stores has offset, at least in part, installment credit transactions; the material submitted being the result of an investigation conducted in 1926-1927 by Professor Seligman.

Upon motion, the memorandum was ordered circulated and referred to Mr. James, at whose request the matter was looked into by the Division of Research and Statistics.

Discussion then ensued regarding the proposed letter to the Chairmen of all Federal Reserve banks submitted by Mr. Miller at the meeting on January 21st, advising of the revision of Open Market procedure adopted by the Board

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on January 16th and requesting an expression of views thereon.

At the conclusion of the discussion the proposed letter, as follows, was approved, Governor Young not voting:

"This letter invites the attention of your bank to changes which the Federal Reserve Board, after prolonged consideration of the matter, has concluded should be made in the existing procedure governing open market operations.

"It may be recalled that it was in April, 1923, that the present procedure with regard to open market operations was adopted. In the preceding year many of the Reserve banks, in order to maintain portfolios of earning assets, entered the market on their own separate accounts to purchase United States Government securities, without much regard to the effects of their operations on the market for Government securities or on credit conditions. It was found necessary, in consequence, to give to open market operations a status which recognized their credit effects and economic consequences and also their effects on the position of each Federal reserve bank.

"A copy of the Board's resolution containing an outline of the procedure adopted in 1923 is herewith enclosed. Under this procedure the principle governing open market operations was defined and its application and practice left to a Committee consisting of five Reserve banks acting under the general supervision of the Federal Reserve Board.

"The principle was stated as follows:

'That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation.'

"The five banks constituting the Open Market Investment Committee were the following:

- Federal Reserve Bank of Boston
- Federal Reserve Bank of New York
- Federal Reserve Bank of Philadelphia
- Federal Reserve Bank of Cleveland
- Federal Reserve Bank of Chicago

"Although the necessity of giving to open market operations a System status was recognized in 1923, it was not then foreseen how much use would be made of the open market operation as an instrument of Federal reserve credit policy. As a matter of fact, frequent resort has been taken to open market operations - either by purchase or sale of United States Government securities - as a mode of policy in the five years following the 1923 arrangements.

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"The experience of this period shows that the open market operation, when involving other than trifling amounts, may be of first-rate importance in altering credit conditions even when viewed on a national scale.

"It is not surprising, therefore, that suggestions should have been made that the System character of open market operations should be fully recognized by having all twelve Federal Reserve banks, instead of five as at present, represented in the shaping of open market policy. Views to this effect have been expressed informally by Reserve banks not included in the existing set-up, and formally by the Federal Advisory Council in the following recommendation adopted in September, 1928:

'The Federal Advisory Council without any intention of criticising the present arrangements but in order that all governors of the Federal Reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the Governors of the Federal Reserve banks with an executive committee composed of five members with full power to act.'

"For the reasons briefly set forth above, the Board has drawn up a revision of the 1923 open market procedure, which embodies a fuller recognition of the joint interest and responsibility of the Federal Reserve banks and the Federal Reserve Board in the matter of open market policy. The elements of this procedure are contained in a memorandum adopted by the Federal Reserve Board reading as follows:

'(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, to be known as the Open Market Policy Conference, to be set up in its place.

(2) Each Federal reserve bank to be represented on the Open Market Policy Conference.

(3) The Conference to meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

(4) The function of the Open Market Policy Conference to be to consider, develop and recommend plans with regard to the purchase or sale of securities in the open market.

(5) The time, character and volume of such purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference to be submitted to each of the Federal Reserve banks and to the Federal Reserve Board for consideration and/or action.

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"(7) A committee to be known as the Open Market Executive Committee to be constituted for the purpose of executing such purchases and sales of securities as have been approved by Federal reserve banks and the Federal Reserve Board."

"Such further working arrangements as may be found necessary to make the above outlined plan operative will, in the opinion of the Board, best be determined by the Conference itself when it is organized.

"The Board believes that the above procedure contains the essentials of a workable plan designed to give expression to the common interest of the Federal reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. After your bank has had time to consider the plan, the Board will welcome an expression of your views."

The Governor referred to a telephone conversation with Mr. Simpson, Class C Director and Deputy Chairman of the Federal Reserve Bank of Chicago, during which Mr. Simpson requested him to take up with the Board the matter of reconsideration of its action in disapproving the salary of \$37,500 fixed by the Chicago directors for Governor McDougal, and in advising that it will approve a salary of \$35,000 for Governor McDougal during 1930, if recommended by the directors.

After some discussion, the Governor was requested to advise Mr. Simpson that the Board would appreciate it if the Chicago directors would not bring the matter up again at the moment and further that the Board did not approve several other increased salaries recommended for Governors which may again be presented and if any other of the recommended salaries do come up for reconsideration, the Board will give reconsideration to the recommendation on Governor McDougal's salary.

The Governor then referred to a request made by a local representative of the Bank of Athens Trust Company, New York, N. Y. for information as to the reasons for the Board's recent disapproval of that bank's application for membership in the Federal Reserve System. He stated that the bank desires to renew its application, but before doing so wishes to correct any unsatisfactory conditions which resulted in disapproval of the original application.

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The matter was discussed briefly, but no action was taken.

REPORTS OF STANDING COMMITTEES:

Dated, January 22nd, 23rd, Recommending changes in stock at Federal Reserve banks as set forth in the Auxiliary Minute Book of this date. Recommendations approved.

Dated, January 22nd, Recommending action on applications for fiduciary powers as set forth in the Auxiliary Minute Book of this date. Recommendations approved.

Dated, January 22nd, Recommending approval of the application of Mr. George L. Lambert for permission to serve at the same time as director of the Cheltenham National Bank, Cheltenham, Pa. and as director of the County Trust Company of Philadelphia, Pa.

Approved.

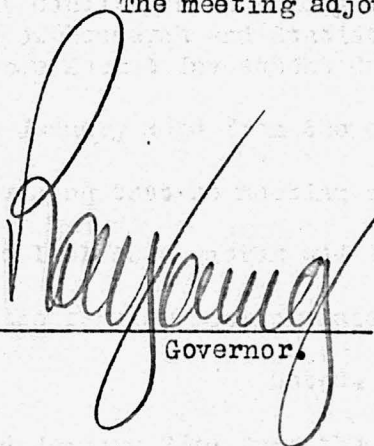
Dated, January 22nd, Recommending approval of the application of Mr. C. B. Raymond for permission to serve at the same time as director of the First-City Trust & Savings Bank of Akron, Ohio and as director of the First National Trust & Savings Bank of Santa Barbara, Cal.

Approved.

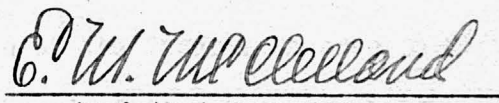
Dated, January 22nd, Recommending approval of the application of Mr. C. J. Chandler for permission to serve at the same time as director and officer of the First National Bank in Wichita, Kansas and as director of the First National Bank of Elkhart, Kansas.

Approved.

The meeting adjourned at 1:15 p.m.



Governor.



Assistant Secretary.

Approved: