A special meeting of the Federal Reserve Board was held in the office of the Governor on Wednesday, May 21st, at 3:15 p.m.

PRESENT: Governor Young
Mr. Platt
Mr. Hamlin
Mr. James
Mr. Cunningham
Mr. Pole
Mr. McClelland, Assistant Secretary

The Governor stated that he called a special meeting of the Board because he has been informed by the State Department that inquiry has been made of it as to whether it has any objection to the sale of reparations bonds in the American market. As a matter of courtesy, the State Department advises that it will reply to the effect that it has no objection. The Governor, therefore, anticipated that a cablegram will be received tomorrow by the Federal Reserve Bank of New York from the Bank for International Settlements inquiring whether the Federal Reserve Bank of New York would dissent to an offering of the bonds in this market. He reminded the Board that Governor Harrison of the Federal Reserve Bank of New York on May 14th advised the Board of the procedure that would be followed by the New York Bank, namely, that they would prepare a cable reply to the effect that they do not dissent, but before dispatching the same would refer its contents to the Federal Reserve Board, and if the Board did dissent to the issue the cablegram would not be dispatched.

The Governor then reviewed the situation with reference to the Bank for International Settlements, stating that in the Young plan the tentative draft provided for participation by an officer of a Federal reserve bank in the management of the Bank for International Settlements, both directly and through selection. He recalled the position of the State Department, objecting to any officer of a reserve bank participating in the operation or management
of the Bank, on what he considered the standpoint of national policy.

He further informed the Board that representatives of the Administration conferred with Messrs. Traylor and Reynolds before their departure for Europe to participate in the drafting of the statutes of the Bank for International Settlements, and informed Messrs. Traylor and Reynolds that if foreign central banks of issue and foreign governments were to be given a veto power with reference to operations in their own markets by the terms of the statutes of the Bank for International Settlements, some such veto power should be lodged with responsible authorities in this country. He has been informed by Administration officials, he stated, that Messrs. Traylor and Reynolds had accomplished their object, insofar as the Administration was concerned, by giving the veto power to the Federal Reserve Bank of New York, which is subject to general supervision and regulation by the Federal Reserve Board, thus vesting ultimate responsibility in the body which represents the Federal Reserve System as a whole and which is responsible for the credit policies of the United States in the same manner as central banks of issue abroad are respectively responsible for the credit policies of their countries.

The Governor stated that taking all things into consideration he thought it highly desirable that the Federal Reserve Board retain this veto power, even though it might not be of any particular importance at the moment, as the time might come when it would be of great importance and it should not be nullified by the precedent of a failure to assume or accept the power at this time.

He also stated and recommended to his colleagues that he thought the
best method of procedure for the Board to follow when the inquiry is made by the Federal Reserve Bank of New York with reference to their cablegram expressing no dissent to the flotation of reparations bonds in this market would be to take the position that inasmuch as we have a free securities market the question of the flotation of reparations bonds in our market at the moment is one of national policy rather than economic or financial. He, therefore, suggested that the question be referred to the State Department to secure an official statement from them that they do not object to the flotation of the bonds and that when this is received the Federal Reserve Bank of New York be advised that inasmuch as the question at the moment is one of national policy rather than economic or financial, to which the State Department does not object, there are, therefore, no grounds for the Board objecting to the dispatch by the New York Bank of the cablegram that had been prepared, it being understood, however, that such failure to dissent shall not be construed either as an approval or disapproval of the terms, conditions, or worth of securities, or as a waiver of any of the lawful powers of the Federal Reserve System to take appropriate action at any time to protect credit conditions in the United States.

During the discussion which ensued, several members of the Board stated that they would be satisfied as to the attitude of the Administration regarding the Bank for International Settlements if the views reported verbally by the Governor in the above statement could be formally confirmed through the Secretary of the Treasury.

During this discussion Mr. Miller joined the meeting and the Governor reviewed briefly the statement he had made and the discussion which had taken place.
At the request of the Governor, therefore, the meeting recessed while he prepared the above statement in written form and reconvened at 4:50 p.m., at which time the statement was formally submitted and read to the Board by the Assistant Secretary.

After some further discussion, upon motion the Governor was then authorized to address the following letter to the Secretary of the Treasury:

"At a meeting of the Federal Reserve Board today I made a statement, copy of which is enclosed, which included views with reference to the position of the administration regarding the Bank for International Settlements. At your convenience I would appreciate it very much if you will advise me if I accurately stated the administration's position."

The meeting adjourned at 5:45 p.m.

Approved: [Signature]

[Signature]