

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, October 2, 1930, at 11:40 a.m.

PRESENT: Governor Meyer  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Cunningham  
Mr. McClelland, Asst. Secretary

In accordance with the request of the Board yesterday, the Governor presented draft of a letter to the Chairman of the Open Market Policy Conference with regard to the final report of the meeting of the Conference held on September 25th.

After some minor amendment, upon motion, the letter was approved and ordered transmitted in the following form:

"The final Report of the Open Market Policy Conference, transmitted by you on September 30th, has been fully considered by the Board.

"The Board understands that the Conference is of the opinion that no change of the existing situation with regard to money rates is desirable - neither firming of rates nor easing of rates; and that, therefore, no operations in the open market are contemplated, except as they may become necessary to counteract factors threatening a disturbance of the status quo with respect to money rates. It is the understanding of the Board that the authority asked by the Conference to purchase or sell Government securities is to protect the existing level of rates, not to alter it.

"I am writing to advise you that the Board is prepared to approve the purchase or sale of Government securities within the limits proposed in the Report of the Conference, for the purpose of maintaining stability of rates under present conditions, such authority to run until an agreeable date next January, unless a change in conditions before that time should make a review and reconsideration of Open Market Policy advisable at an earlier date.

"It will be understood that such purchases or sales will be made in consultation with the Governor of the Board or, in his absence, the Acting Executive Officer

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of the Board, except purchases or sales made in small amounts in pursuit of an understood program or in the event of a sudden emergency.

"It will be understood further that the present action of the Board in approving the recommendation of the Conference supersedes the action taken on September 3rd."

Memorandum dated October 1st from Counsel submitting, in accordance with the instructions given him by the Board at the meeting on September 30th, draft of a resolution amending subsection (a) of Section IV of Regulation "D" so as to provide that, in computing deficiencies in the reserves of member banks for the purpose of assessing penalties, the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balance at the opening of business (instead of the close of business) on the same day.

During the discussion which ensued, Mr. Wyatt, the Board's General Counsel, was called into the meeting.

After the conclusion of the discussion, the resolution, amended to read as follows, was adopted:

"BE IT RESOLVED by the Federal Reserve Board that Regulation D, Series of 1928, be amended by striking out the paragraph numbered 2 in subsection (a) of Section IV thereof and inserting in lieu of such paragraph the following:

"(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances at the opening of business on the same day; and the semiweekly, weekly and semimonthly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal reserve banks with the approval of the Federal Reserve Board."

"BE IT FURTHER RESOLVED that this regulation as

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amended shall become effective as to each member bank at the beginning of the first reserve computation period of such member bank commencing after midnight on October 31, 1930.

"BE IT FURTHER RESOLVED that the regulation as amended shall be designated as 'Regulation D, Series of 1930.'"

A proposed statement for inclusion in the Federal Reserve Bulletin, submitted with Counsel's memorandum, was also considered and approved in the following amended form:

"Amendment to Regulation D permitting computation of deficiencies in reserves on the basis of member banks deposits at opening of business instead of close of business. - The Federal Reserve Board has amended subsection (a) of Section IV of its Regulation D so as to provide that, in computing penalties for deficiencies in reserves, the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances at the opening of business, instead of the close of business, on the same day. No change, however, was made in the existing practice of computing such deficiencies on the basis of average daily net deposit balances covering semiweekly, weekly or semi-monthly periods.

"This change has been made because fluctuations in their own deposit balances during the day, especially toward the close of business, made it difficult for member banks to estimate accurately what their reserve requirements would be each day when they were computed on the basis of their deposit balances as of the close of business.

"The amendment becomes effective as to each member bank at the beginning of the first reserve computation period of such member bank commencing after midnight on October 31, 1930.

"Section IV(a) of the Regulation, as amended, reads as follows:

"Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal reserve act, hereby prescribes the following rules governing penalties for deficiencies in reserves:

"(a) Basic penalty.

"(1) Deficiencies in reserve balances of member banks in cities where Federal reserve banks or branches thereof are located and in such other reserve cities as the Federal Reserve Board may designate from time to time will be computed on the basis of average daily net deposit balances covering semiweekly periods. Deficiencies in reserve balances of member banks in all other reserve cities will be computed on the basis of average daily net deposit balances covering weekly periods. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering semimonthly periods.

"(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances at the opening of business on the same day; and the semi-weekly, weekly and semi-monthly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal reserve banks with the approval of the Federal Reserve Board.

"(3) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding calendar month.

"(4) Such penalties shall be assessed at a basic rate of 2 per cent per annum above the Federal reserve bank discount rate on 90-day commercial paper, in effect on the first day of the calendar month in which the deficiencies occurred."

Upon motion, it was then voted that Regulation D, Series of 1930, should be printed by the Board in pamphlet form.

Counsel then called attention to the fact that all of the Regulations of the Board have been reprinted in pamphlet form with the exception of Regulation H, which was deferred because of consideration which was being

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given by the Board to the revision of condition of membership No. 3, relative to the purchase of bank stocks, which is included in Section IV of the Regulation.

The Assistant Secretary called attention to the fact that at the meeting of the Board on September 30th, in accordance with the recommendation of the Conference of Federal Reserve Agents, the Board voted to hold in abeyance the proposed revision of the membership condition referred to pending submission of the report of the System Committee on Branch, Chain and Group Banking.

There was some further discussion regarding the modification of the condition of membership suggested by the Conference of Governors.

It was voted, however, that Regulation H as it now stands should be reprinted in pamphlet form.

The minutes of the meeting of the Board held on October 1st were then read and approved.

Mr. Miller referred to the present procedure of handling the release of the Board's Review of the Month. He suggested that the procedure would be improved if every member of the Board read the review and it were then approved for publication by the Board. There was brief discussion, but no action was taken.

#### REPORTS OF STANDING COMMITTEES:

Dated, October 2nd, Recommending approval of the application of Mr. Harold W. Hack for permission to serve at the same time as director of the Fidelity Union Trust Company of Newark, New Jersey, and as director of The First National Bank of Millburn, New Jersey.

Approved.

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REPORTS OF STANDING COMMITTEES: (Cont'd)

Dated, October 2nd, Recommending approval of the application of Mr. C. E. Brouse for permission to serve at the same time as director and officer of the Citizens National Trust and Savings Bank of Riverside, California, as director and officer of the First National Bank of Hemet, California, and as director and officer of the First National Bank of San Jacinto, California.

Approved.

The meeting adjourned at 12:30 p.m.

C. W. McClelland

Assistant Secretary.

Approved:

C. W. McClelland  
Governor.