

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, July 28, 1931, at 4:10 p. m.

PRESENT: Governor Meyer  
 Mr. Hamlin  
 Mr. Miller  
 Mr. James  
 Mr. Magee  
 Mr. McClelland, Assistant Secretary.

The members of the Board had previously been in informal session discussing the two matters referred to below, on the basis of a report made by the Governor of telephone conversations with the Governor of the Federal Reserve Bank of New York.

The Governor presented the following telegram just received from the Governor of the Federal Reserve Bank of New York:

"Referring to our telephone conversations of this morning concerning Mr. McGarrah's cable relative to the setting up of the committee recommended by the London Conference it was voted at the meeting of our directors this afternoon to authorize the Governor of this bank after taking up the matter with the Federal Reserve Board and the other Federal Reserve banks and after conferring with the principal New York banks and Bankers who are creditors of Germany to suggest the name of an American who would be available and qualified to serve on the committee which the London Conference invited the Bank for International Settlements to set up, it being understood that such American will not serve as a representative of the Federal Reserve Bank of New York or the Federal Reserve System but as an independent American member of the committee. I hope you have no objection to this procedure. For your information and in accordance with the authority of our directors today I propose to send the following telegram to the Governor of each of the other Federal Reserve banks and shall discuss with the principal creditor bankers in New York the question of the best available American to serve on the proposed committee:

'I have received the following cable from the President of the Bank for International Settlements:

"For Governor Harrison.

One-confirming my informal notification, recent London conference recommended 'That the Bank for International Settlements should be invited to set up without delay a committee of representatives nominated by the Governors of the Central Banks interested to inquire into the immediate further credit needs of Germany and to study the possibilities of converting a portion of the short-term credits into Long-terms credits'

Two-If you consider that your Central bank is interested within the meaning of the above will you kindly advise me whether you desire to appoint your representative and if so whom. Upon

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"receipt of names it will then be possible to deal with the question of setting up the committee.

Three-Am addressing similar inquiries to the nine Governors represented on our Board.

McGarrah, President."

"This cable was obviously sent in identical form to us and to the nine other banks of issue referred to in the cable.

While there is of course no central bank in the United States in the same sense that that phrase is used in other countries, it is assumed that this communication was addressed to the Federal Reserve Bank of New York rather than to another Federal Reserve Bank in the United States, first, because in dealing with central banks the B I S is no doubt influenced by the provisions of its statutes to the effect that, where a country has a banking system in lieu of a single central bank, the bank forming part of such system which is situated and operating in the principal financial center of the country shall be considered as the central bank of that country, and second, because the New York banks have much heavier commitments in Germany than banks in other Federal Reserve Districts, the total short term indebtedness of Germany to New York banks being about four-fifths of the total due to all American banks on this account, and third, because it has been a long established policy of the Federal Reserve System to handle foreign business through the Federal Reserve Bank of New York, all other Federal Reserve banks participating prorata in such business. As to the substance of cable quoted above we believe that quite apart from the public interest the American banking community generally and the New York banks and bankers in particular are much interested in the inquiry to be made by the Committee recommended by the London conference. In these circumstances and because of the need for speedy action it is my thought that I should confer promptly with you as well as the principal New York bankers who are creditors of Germany in order to ascertain as soon as possible who might be the most desirable available American to serve on the proposed committee. If you and the Federal Reserve Board express no objection to this procedure I shall then suggest to Mr. McGarrah the name of the American who seems best suited for the purpose in the light of all the available information but with the understanding that if the committee is finally set up such American shall not be a representative of the Federal Reserve Bank of New York or the Federal Reserve System but rather an American whom we believe to be available and qualified to serve as an independent member of the committee recommended by the London Conference."

Upon motion, the following telegraphic reply to Governor Harrison was approved and ordered transmitted:

"Replying to your telegram, Board has considered the procedure outlined and has no objection to offer thereto."

The Governor then presented another telegram just received from

Governor Harrison reading as follows:

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"At a meeting of our directors this afternoon it was voted that whereas credit problems are arising from time to time in central and Eastern European countries rising out of present economic conditions in those countries, and whereas the Federal Reserve Bank of New York is not in a position promptly to consider on the merits its participation in proposed credits to Central banks in those countries as and when occasion arises, and whereas the B I S has indicated its willingness to consider giving financial assistance on its own responsibility in such cases as may from time to time arise and to use its own resources in granting such credits as it may approve, therefore it is resolved that in order to cooperate as far as proper and possible in the circumstances, the officers be authorized, subject to the approval of the Federal Reserve Board, to arrange to make a time deposit with the Bank for International Settlements in an amount not to exceed \$10,000,000 and for a period not to exceed six months.

"Will you please be good enough to advise me as promptly as may be convenient whether the Federal Reserve Board approves of this action of our directors. In taking this action the directors voted to rescind the vote taken on July 2 relative to a proposed deposit with the Bank for International Settlements and/or the purchase of prime commercial bills endorsed or guaranteed by European Central Banks of issue, to which reference was made in our telegram of July 2 to the Federal Reserve Board."

Mr. Hamlin stated that in his opinion the Federal Reserve Bank of New York has legal authority to make the deposit with the Bank for International Settlements referred to in the above telegram and that if no member of the Board questioned that authority he would vote in favor of the action taken by the directors of the Federal Reserve Bank of New York in authorizing the deposit. He stated, however, that if question were raised as to the authority of the bank he would move to secure an opinion on the matter from the Board's Counsel.

Mr. Miller stated that even though the Board's Counsel should advise that the Federal Reserve Bank of New York has the legal authority to make such a deposit he would not vote to approve the action of the New York directors.

The Governor then called Mr. Wyatt, the Board's General Counsel, into the meeting and Mr. Wyatt made the following statement:

"I think there is no doubt that the Federal Reserve Bank has the right, with the permission of the Federal Reserve Board and subject to such regulations as the Board may prescribe, to open an account with the Bank for International Settlements and the opening

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"of such an account would carry the right to make a deposit with the Bank for International Settlements. The right conferred by Section 14(e) to open accounts and appoint correspondents in foreign countries applies to the Bank for International Settlements as well as to any other foreign bank. I think, however, that there is serious doubt as to the legality of a time deposit for six months, because a Federal Reserve bank's funds are entrusted to it for safe custody as the ultimate bank reserves of the United States. They are practically held in trust and the whole theory of the Federal Reserve System is that these funds will be held in a liquid form ready and available to meet any emergency in this country. I think that if the Board approves the proposal which has been submitted it can be criticized on that ground, although I doubt that it could be successfully challenged in the courts. I believe the Federal Reserve Act should be construed liberally to meet changed conditions and I think any court would be inclined to construe it liberally. The legality of establishing a deposit balance in a foreign bank would be clearer, however, if it were coupled with an arrangement for the foreign bank to use that balance to purchase bills of exchange for the Federal Reserve bank upon request from the latter. It was obviously the purpose of Section 14(e) of the Federal Reserve Act in authorizing the opening of accounts in foreign countries to enable Federal Reserve banks to buy and sell bills of exchange in those countries."

Mr. James then suggested that in lieu of the proposal which has been submitted to the Board, the Federal Reserve Bank of New York might make an arrangement to deposit with the Bank for International Settlements the sum of \$10,000,000 for the purchase of bills from the portfolio of the Bank for International Settlements and bearing its endorsement.

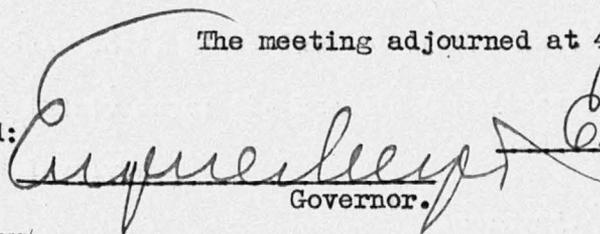
After some discussion Governor Meyer communicated this suggestion over the telephone to the Governor of the Federal Reserve Bank of New York and reported that Governor Harrison would talk with Mr. McGarrah, President of the Bank for International Settlements, regarding it.

The Governor also presented a telegram from the Deputy Governor of the Federal Reserve Bank of New York advising that no further purchases of sterling were made today.

Noted.

The meeting adjourned at 4:50 p. m.

Approved:

  
Governor.

  
Assistant Secretary.