

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, September 30, 1931, at 11:15 a. m.

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

ALSO PRESENT: Mr. Wyatt, General Counsel  
Mr. Vest, Assistant Counsel.

The Governor reported to the Board that the Federal Reserve Bank of New York yesterday earmarked for the Nederlandsche Bank, \$37,000,000 of gold, which liquidates approximately 80% of that bank's bill holdings in New York; that the National Bank of Belgium has now converted its entire bill holdings into earmarked gold; that the Swiss National Bank has earmarked approximately \$60,000,000, leaving approximately \$50,000,000 invested in bills and \$25,000,000 in Government securities; that the Bank of Italy is liquidating some of its holdings to meet commitments in this market; that the Bank of France still holds bills and securities in addition to the considerable amounts which have been converted; and that aside from deposits with the Federal Reserve Bank of New York and earmarked gold, the total holdings of foreign central banks in the New York market at the present time amount to approximately \$150,000,000 of bills and \$30,000,000 of Government securities.

Following the Governor's report there ensued a general discussion of the recent transactions by foreign central banks in the New York market as a result of the suspension of the gold standard in European countries and their probable effects on Federal Reserve credit policy.

The Governor then stated that he has received a letter from Mr. Robert Maddox, Chairman of the Resolutions Committee of the forthcoming convention of the American Bankers Association, stating that he would appreciate

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any suggestions which the Governor might wish to make for his confidential consideration in connection with the Committee's work. During the discussion which followed it was the consensus of opinion that it would be better for the Governor to discuss the general situation with Mr. Maddox personally some time prior to the Association meeting, if that can be conveniently arranged.

Mr. Hamlin then referred to memoranda submitted by Counsel through the Law Committee under date of September 10th and 21st with regard to the question whether bankers' acceptances drawn to finance the storage of cotton by Anderson, Clayton and Company and accepted by the Merchants National Bank of Mobile, Alabama, are eligible for rediscount at a Federal Reserve bank when secured by warehouse receipts issued by a warehouse corporation, all of the stock of which is owned by Anderson, Clayton & Co., the majority of such stock, however, being trusted under a voting trust agreement with three independent trustees; Counsel being of the opinion that the warehouse receipts issued by the subsidiary warehouse company are legally sufficient to convey or secure title to the cotton covered thereby but that while the question is a close one, from a practical standpoint, the management of the subsidiary warehouse company is not in fact properly independent of the borrowing firm within the meaning of the requirements of the Board's Regulations, and the arrangement should not be approved by the Federal Reserve Board. In his memorandum of September 21st, Counsel stated, however, that in view of the fact that this is a close question, and in view of the high credit standing and good business reputation of Anderson, Clayton & Co., the present state of the cotton market, and the prospect for an enormous surplus of cotton which must be warehoused and financed, an adverse ruling on this question at the present time might be deemed to be inexpedient, especially since it

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appears that for a number of years commercial banks have accepted, without question, warehouse receipts issued under similar circumstances by other subsidiaries of Anderson, Clayton & Co.; also, that he believes that this question should be considered by the Board as one of policy rather than law, but that in his opinion the Board should carefully refrain from issuing any formal ruling which might have the effect of impairing or breaking down the principle that warehouse receipts securing bankers' acceptances must be issued by a party independent of the customer.

A discussion ensued, at the conclusion of which Mr. Miller moved that since the Board, after conferring with Counsel, is informally agreed that a ruling establishing the eligibility for rediscount at Federal Reserve banks of bankers' acceptances secured by warehouse receipts issued by a subsidiary of Anderson, Clayton & Co., of the character involved in this case, would involve the modification of or departure from principles as to independent warehousing laid down in the Board's Regulations, the Board refrain from any formal ruling in this case, as suggested by the Governor of the Federal Reserve Bank of Atlanta in his letter of May 25, 1931, and that the Governor of the Board be authorized to communicate with the Governor of the Atlanta Bank and other interested parties in order to acquaint them with the position of the Board as to the inadvisability of any change in existing regulations with regard to warehousing requirements.

Mr. Miller's motion, being put by the chair, was unanimously carried.

At this point Mr. Wyatt and Mr. Vest left the meeting.

The minutes of the meeting of the Executive Committee of the Federal Reserve Board held on September 21st were approved, and, upon motion, the actions recorded therein were ratified.

The Assistant Secretary then presented the following matters of business which were considered and acted upon by the Board:

Telegram dated September 29th from the Chairman of the Federal Reserve Bank of San Francisco, advising of an increase on that date of 1/4% in the

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bank's effective buying rates on bankers' acceptances of all maturities.

Without objection, noted with approval.

Telegram dated September 29th from the Federal Reserve Bank of New York advising that it was not necessary to make an advance to the Banco de la Nacion, Argentina, against the \$10,000,000 of gold coin in transit to New York as the shipment was received on September 29th and purchased outright. The telegram advised, however, of an advance of \$4,767,860 made by the New York Bank to the Sveriges Riksbank secured by \$5,018,800 of gold in transit to New York.

Noted.

Report of Executive Committee on letter dated September 24th from the Comptroller of the Currency recommending approval of a salary of \$4,500 per annum for Mr. John F. Utt, National Bank Examiner, assigned to the Seventh Federal Reserve District; the Board's Committee recommending approval.

Approved.

Memorandum from Counsel dated September 24th with regard to letter dated August 31st from the President of the Consumers Guild of America, Inc., requesting that the Board make an investigation with reference to certain general charges against better business bureaus and others said to be affiliated with better business bureau organizations; Counsel submitting draft of a reply advising that the matter is one which, under the law, does not come within the authority or jurisdiction of the Federal Reserve Board.

Upon motion, the proposed letter was approved.

Letter dated September 28th from the Federal Reserve Agent at Boston enclosing an analysis of report of a credit investigation of the Carroll

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County Trust Company, Conway, N. H., and calling attention to a possible irregular transaction by the bank in the purchase of 500 shares of the stock of the Continental Bank and Trust Company of New York, made on authority of the Vice-President of the bank, but without approval of the board of directors.

Upon motion, it was voted to refer the Federal Reserve Agent's letter to Counsel for report as to whether the purchase involves a violation of law or of the bank's conditions of membership.

Report of Executive Committee on letter dated September 24th from the Assistant Federal Reserve Agent at New York, transmitting with his unfavorable recommendation, application of the West Orange Trust Company, West Orange, N. J., for permission to reduce its capital stock from \$250,000 to \$125,000. In his letter the Federal Reserve Agent called attention to the fact that the bank is clearly in an unsatisfactory condition, with irregular transactions on the part of some of the officers, and an apparent violation of one of the conditions under which it was admitted to membership in the Federal Reserve System; that he is of the opinion that, on the basis of the capital impairment set up by the Federal Reserve examiner, the proposed reduction in capital will not correct the situation; that the bank probably will not be able to take care of the capital impairment in any other way than by a reduction in capital stock; that it is possible that failure to secure the approval of the Federal Reserve Board to the reduction will result in withdrawal of the trust company from membership, but that should the impairment be corrected by some other means, further recommendations will be made with regard to continuance of the trust company's membership in the Federal Reserve System.

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Upon recommendation of the Executive Committee, it was voted to concur in the recommendation of the Assistant Federal Reserve Agent that the proposed reduction be not approved.

Letter dated September 17th from the Comptroller of the Currency recommending approval of the application of the Worcester County National Bank, Worcester, Mass., for permission to reduce its capital stock from \$1,888,150 to \$1,500,000; the memorandum stating that no money will be returned to shareholders but that the amount of the reduction will be credited to undivided profits and used presumably to charge off losses and depreciation aggregating \$307,270.65. In this connection, attention was called to the fact that the bank has deposits of \$28,892,000, that if the proposed capital reduction is approved the capital and surplus will amount to \$3,000,000 with undivided profits of approximately \$415,000, after making the proposed chargeoffs, but that the assets will still include \$1,900,000 of slow loans, \$322,000 of doubtful paper and net depreciation of \$24,000.

After some discussion, during which it was the consensus of opinion that in view of the condition of the bank, a capital reduction should not be approved, it was voted to advise the Comptroller of the Currency that the Board is not favorably disposed to the plan and feels that the proposed chargeoffs should be effected other than through a reduction of the capital of the bank.

The Governor then referred to the matter discussed at the meeting on September 2nd, namely, the proposed publication by the Federal Reserve Bank of Philadelphia of a pamphlet designed to explain to the general public the services rendered by the Federal Reserve System. At the Governor's suggestion Mr. Harrison, Assistant to the Governor, was called into the meeting. He stated that he has read a revised draft of the pamphlet, that parts of it are

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not well expressed, and that it contains a number of statements which should be revised. He also questioned whether, as a matter of policy, anything along the lines of the proposed pamphlet should be issued under existing conditions.

After some discussion, upon motion, the Assistant Secretary was instructed to advise the Federal Reserve Bank of Philadelphia that the Board does not approve of the publication of the proposed pamphlet.

Mr. James then reported that on Friday and Saturday of last week Mr. Walsh, Chairman of the Board of Directors of the Federal Reserve Bank of Dallas, talked with him over the telephone regarding the unanimous feeling of his Board that Mr. B. A. McKinney should be appointed Governor of the Dallas bank to succeed Mr. Lynn P. Talley, resigned, and that Mr. McKinney's salary should be fixed at \$30,000 per annum, which salary he is now receiving as First Vice-President of the First National Bank in Dallas. Mr. James stated that after conferring with Mr. Magee, the only other member of the Board present in Washington, and talking over the telephone with Governor Meyer who was in New York, he advised Mr. Walsh that in his opinion, the Board would not approve a salary for the Governor of the Dallas Bank in excess of \$25,000, which was the salary received by Mr. Talley. Governor Meyer, he said, also talked with Mr. Walsh along the same general lines from New York City.

Mr. James further stated that Mr. Walsh had requested that the Board give further consideration to the matter, stressing the unanimous feeling of the directors of the Dallas bank that Mr. McKinney is the logical selection for the position of Governor of the Dallas bank, and their further feeling that it is imperative that the vacancy created by Governor Talley's resignation be filled with as little delay as possible due to the very unsettled banking conditions which exist in the Eleventh Federal Reserve District at the present time.

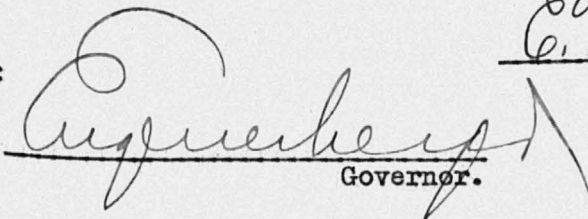
A discussion ensued, at the conclusion of which it was voted to advise Mr. Walsh that the Board has given further consideration to the matter in the light of the disturbed banking situation in the Eleventh Federal Reserve District and the unanimous feeling of the Board of Directors of the Dallas bank, and is prepared to act favorably on a salary of \$30,000 per annum for Mr. McKinney if and when he is appointed by the directors as Governor of the Dallas bank.

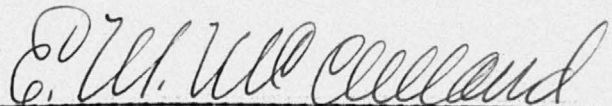
REPORTS OF STANDING COMMITTEES:

- Dated, September 29th Recommending a change in stock at a Federal Reserve Bank, as set forth in the Auxiliary Minute Book of this date.  
Recommendation approved.
- Dated, September 26th Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.  
Recommendation approved.
- Dated, September 29th Recommending approval of the application of Mr. Wm. H. Rogers, for permission to serve at the same time as director of The Florida National Bank of Jacksonville, Jacksonville, Fla., and as director of the Florida National Bank & Trust Co. at Miami, Fla.  
Approved.
- Dated, September 29th Recommending approval of the application of Mr. B. Murray Peyton, for permission to serve at the same time as director and officer of the Minnesota National Bank of Duluth, Minn., and as director of the Pioneer National Bank of Duluth, Minn.  
Approved.
- Dated, September 29th Recommending approval of the application of Mr. Walter M. Evered, for permission to serve at the same time as director of the Minnesota National Bank of Duluth, Minn., and as director of the Pioneer National Bank of Duluth, Minn.  
Approved.

The meeting adjourned at 12:45 p.m.

Approved:

  
Governor.

  
Assistant Secretary.



AUXILIARY MINUTES  
(September 30, 1931.)

Report of Standing Committee dated September 29th, recommending a change in stock at a Federal Reserve bank, approved as follows:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 10.</u>		
First National Bank in Hastings, Nebraska.	120	120

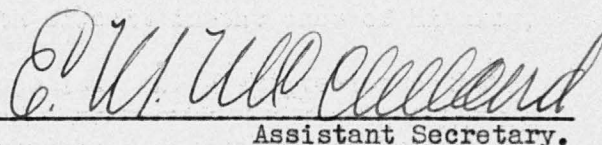
Report of Standing Committee dated September 26th, recommending action on an application for fiduciary powers by the following bank:

APPROVED:

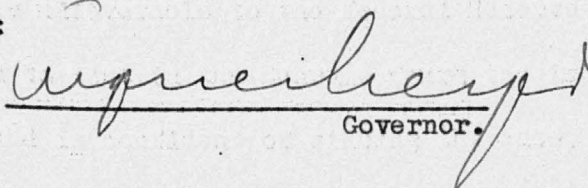
DISTRICT NO. 7.

INDIANA:

The Albion National Bank, Albion. (3371. Powers 2, 3, 5, & 8)

  
Assistant Secretary.

Approved:

  
Governor.