A meeting of the Federal Reserve Board was held in Washington on Friday, February 23, 1934, at 11:30 a. m.

PRESENT: Mr. Black, Governor
Mr. Hamlin
Mr. Miller
Mr. Thomas
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics

The minutes of the meetings of the Federal Reserve Board held on February 8 and 13, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on February 10 and 14, 1934, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

Telegram to Mr. McClure, Chairman of the Federal Reserve Bank of Kansas City, replying to a telegram dated February 23, 1934, from Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, stating that the board of directors of the bank, at its meeting today, voted to establish a rate of 4% per annum on advances to individuals, partnerships or corporations secured by direct obligations of the United States under section 13 of the Federal Reserve Act, as amended, effective on the first business day following that on which approved by the Federal Reserve Board. The reply stated that the Board approved for the Federal

Reserve Bank of Kansas City the rate of 4% fixed by the directors, effective February 24, 1934.

Approved.

In connection with the above there was presented a second telegram dated February 23, 1934, from Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, advising that, at the meeting of the board of directors today, no change was made in the bank's existing schedule of rates of discount and purchase other than the establishment of the rate referred to above.

Without objection, noted with approval.

Letter dated February 21, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegram dated February 23, 1934, from Mr. Young, Secretary of the Federal Reserve Bank of Chicago, both advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated February 19, 1934, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. Julius B. Richner and his designation as an assistant Federal reserve examiner, with salary at the rate of $3,600 per annum, effective as of the date upon which he enters upon the performance of his duties.

> Mr. Richner was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board, and was designated an assistant Federal reserve

examiner, with salary at the rate of $3,600 per annum; all effective as of the date upon which he enters upon the performance of his duties.

Letter dated February 21, 1934, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, advising of the acceptance by the board of directors of the bank, at its meeting on February 7, of the resignation of Mr. John C. Cosgrove as a Class A director, and stating that arrangements have been made for a special election of a Class A director for the unexpired portion of the term ending December 31, 1934, to succeed Mr. Cosgrove.

Noted.

Telegram to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, referring to a letter dated February 19, 1934, from Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, and stating that the Board approves the use of the ten employees of the Denver branch named in the letter to assist in the examination of member banks.

Approved.

Telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, replying to his letter of February 16, 1934, in which he requested an additional leave of absence of thirty days to enable him to fully recover his health. The reply stated that the Board extends to April 1, the leave of absence previously granted to Mr. Newton.

Approved.

Telegram dated February 21, 1934, approved by four members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, referring to the application of "The Atwater Savings Bank Company", Atwater, Ohio, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to The Atwater Savings Bank Company, the Federal Reserve Bank of Cleveland is authorized to cancel such stock and make a refund thereon.

Approved.

Letter to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

> "Condition numbered twenty-one, prescribed by the Board in connection with the application for membership of the Union Trust Company of Maryland, Baltimore, Maryland, provides that:
>
> > 'Such bank, in all of its published statements of condition, shall show separately its extensions of credit to, and investment in, its subsidiary, The Royal Realty Corporation, as an investment in, and an extension of credit to, an affiliated company holding other real estate.'
>
> "The Board's attention has been called to a condensed statement of condition of the Union Trust Company of Maryland as of December 30, 1933, published in The Sun, Baltimore (morning edition) of January 1, 1934, wherein the bank's extensions of credit to, and investment in, its subsidiary, The Royal Realty Corporation, were not shown separately as such as required by condition numbered twenty-one. Neither were such advances to and investment in the subsidiary shown separately as such in the condensed statement of the bank's condition appearing in The Sun of December 18, 1933, a reprint of which was inclosed with Mr. Fry's letter of December 19, 1933.
>
> "While it has been noted that the statement of condition of the Union Trust Company of Maryland as of December 30, 1933, published in The Sun, Baltimore (morning edition) on January 11, 1934, showed the bank's investment in, and advances to, its subsidiary, The Royal Realty Corporation, separately as such as required by condition numbered twenty-one, the condition prescribed that such investment and advances be shown separately as such in all published statements and not only in the call reports published in accordance with statutory requirements. To permit the bank to do otherwise would be inconsistent

"and would largely defeat the purposes of the condition.

"You are requested, therefore, to advise the Union Trust Company of Maryland that condition numbered twenty-one applies without exception to all published statements of condition, whether such statements are published for advertising purposes or in connection with legal requirements of call reports."

Approved.

Telegram dated February 21, 1934, approved by three members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Refer your telegram February 19, 1934, re application Security State Bank, Pearsall, Texas. Board grants extension of time to February 28, 1934, within which the bank may accomplish its admission to membership. Request for modification of conditions numbered 19 and 20 also referred to in your telegram will be considered when the revised contract between the two banks has been received."

Approved.

Letter to the "First National Bank of New Rochelle", New Rochelle, New York, reading as follows:

"The Federal Reserve Board approves your application for permission to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

"This letter will be your authority to exercise fiduciary powers as set forth above. A formal certificate covering such authorization will be forwarded to you in due course.

"The Board feels that if you are tendered any of the trusts now held by the National City Bank of New Rochelle you should carefully scrutinize their condition and should not accept any of such trusts which, through their assumption, may be detrimental to your institution. In this connection particular reference is made to the 'servicing' of guaranteed mortgages or mortgages securing participation certificates of the First Mortgage Guaranty and Title Company of New Rochelle, and to trusts the funds of which have been invested in guaranteed mortgages sold by that company."

Approved.

Letter to "The First National Bank in Mascoutah", Mascoutah, Illinois, reading as follows:

"Reference is made to the application filed by your bank for permission to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act.

"The Federal Reserve Board has considered the application and authorizes your bank to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Illinois, only in the specific trusts in which the First National Bank of Mascoutah, Mascoutah, Illinois, had been appointed and was acting on the date The First National Bank in Mascoutah was authorized by the Comptroller of the Currency to commence business, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board. Action upon your application for full fiduciary powers has been deferred until your institution has been examined by a national bank examiner and a report thereof is available."

Approved, together with a letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"There is inclosed a copy of a letter to The First National Bank in Mascoutah, Mascoutah, Illinois, advising of the action of the Federal Reserve Board on its application for permission to exercise full fiduciary powers from which you will note that only limited authority has been granted and that action on the application for full fiduciary powers has been deferred until an examination of the institution has been made and a report thereof is available.

"Subsequent to such examination, you are requested to transmit to the Board an analysis of the report thereof, together with the recommendation of your executive committee as to what action, if any, should be taken at that time upon the bank's application for full fiduciary powers.

"While the applicant bank appears to be in satisfactory condition, and the trust department of the old bank is free from criticism, the Board feels, in view of the unsatisfactory record of the old bank, particularly as regards its securities investments, for which its cashier (now president of the applicant bank) was apparently responsible to a large extent, that full trust powers should be withheld until sufficient time has elapsed to observe the policies to be followed by the management in its operation of this new institution. The nearness of Mascoutah to St. Louis, and the small amount of trust "business acquired by the old bank over a period of years also occasions a question as to whether the applicant bank has any real need for a trust department."

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'First National Bank and Trust Company of Racine', Racine, Wisconsin, from $1,000,000 to $500,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of $500,000 par value preferred stock to the Reconstruction Finance Corporation, and that the funds released by the reduction in common capital stock shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of February 6, 1934."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The First National Bank of Durango', Durango, Colorado, if and when its consolidation with the Burns National Bank of Durango is effected, from $100,000 to $50,000, pursuant to a plan which provides that the bank's capital shall be increased by the sale at par of $100,000 par value preferred stock to the Reconstruction Finance Corporation, and provides also for the use of the capital structure of both banks, over and above the amount contributed to the common capital, surplus, profits and reserves of the consolidated institution, in eliminating substandard assets and securities depreciation in the amount of approximately $160,300, all as set forth in your memorandum of February 8, 1934."

Approved.

Letters dated February 21, 1934, approved by four members of the Board, to Mr. Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, and to Mr. Henry B. Steagall, Chairman of the Committee on Banking and Currency of the House of Representatives, reading as follows:

"The Federal Reserve Board wishes to bring to the attention of your Committee the need for an amendment to the statute to require the publication of reports of condition made by State member banks of the Federal Reserve System pursuant to the provisions of the Federal Reserve Act. The existing law contains no such requirement.

"Reports of condition of national banks made to the Comptroller of the Currency are required by the law to be published and the Federal Reserve Board feels that State member banks of the Federal Reserve System should be made subject to a like requirement with respect to reports rendered on dates fixed by the Federal Reserve Board. Moreover, the Federal Reserve Act, as amended by the Banking Act of 1933, requires reports of affiliates of a State member bank to be published by the bank 'under the same conditions as govern its own condition reports.' This provision appears to have been based upon the assumption that there was a requirement in the Federal statute for the publication of condition reports of State member banks but, as stated, there is no such requirement.

"In the circumstances, the Federal Reserve Board feels that it is important that the law be amended so as to require the publication of reports of condition of State member banks which are made to the Federal reserve banks on dates fixed by the Federal Reserve Board and there is inclosed herewith a draft of a bill which would accomplish this purpose. The Federal Reserve Board hopes that your Committee may take favorable action with respect to this proposed amendment at an early date."

Approved.

Letter dated February 21, 1934, approved by five members of the Board, to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, reading as follows:

"This refers to the letter dated February 2, 1934, from the Acting Clerk of your Committee, inclosing a copy of S. 2565, introduced by Senator Capper on January 23 (calendar day February 1), 1934, which would amend Section 5138 of the Revised Statutes so as to authorize the organization of national banks with a capital of not less than $25,000 in any place the population of which does not exceed three thousand inhabitants, with the request that a report thereon be made to your Committee.

"Prior to June 16, 1933, Section 5138 of the Revised Statutes contained a provision authorizing the organization of national banking associations with a capital of not less than $25,000, with the sanction of the Secretary of the Treasury, in any place having a population of not more than three thousand inhabitants; but this section was amended by the Banking Act of 1933 so as to omit the provision containing this authority.

"It is the view of the Federal Reserve Board, in the light of the experience of recent years with respect to banking institutions of small size, that the enactment of this bill would not prove beneficial. In this connection, it may be pointed out that of the national banks which suspended during the eleven year period of 1921-1931, 40.8% were banks with a capital stock of less than $50,000, and 67.1% of the national and State banks which suspended during this period were banks having a capital stock of less than $50,000. Moreover, out of every one hundred active national banks on June 30, 1920, having a capital of $25,000, 20.1 suspended during the period referred to and out of every one hundred active national banks on June 30, 1920, having a capital between $25,000 and $50,000, 25.4 suspended during that period.

"As a general principle it is believed that a bank's capital and surplus should not ordinarily be less than one-tenth of the average amount of its aggregate deposit liabilities; and in many cases the deposits of a bank with a capital of only $25,000, unless it has a relatively large amount of surplus, are insufficient to insure for it an adequate earning capacity. Such banks find it difficult to pay the compensation necessary to obtain competent managing officers and, due to the limited amount of funds available for investment, are frequently unable to secure a proper distribution of risks in investing such funds. Where risks are not well distributed, losses are apt to be high and to absorb too large a proportion of earnings. The pressure for high earnings and low expenses often results in poor management and in the assumption of excessive risks that lead to failure, with resulting distress to the communities in which such banks are located.

"It is the view of the Federal Reserve Board, therefore, that the existing provision of the law requiring a minimum capital of $50,000 for the organization of a national bank in a place having a population of not exceeding six thousand inhabitants should not be changed and the Board, accordingly, does not favor the enactment of the bill S. 2565."

Approved.

Letter to Honorable Duncan U. Fletcher, Chairman of the Committee on Banking and Currency of the United States Senate, reading as follows:

"This refers to the letters from the Acting Clerk of your committee dated January 31, February 15 and February 17, 1934, requesting a report to your committee on bills S.2520 introduced by Senator Vandenberg on January 23 (calendar day, January 30, 1934), S.2756 introduced by Senator Townsend on February 6 (calendar day, February 14, 1934), S.2767 introduced by Senator Vandenberg on February 6 (calendar day, February 14, 1934) and S.2789 introduced by you on February 6 (calendar day, February 15, 1934). Each of these bills would amend Section 12B of the Federal Reserve Act with regard to the insurance of bank deposits.

"Since all of the bills relate to the same subject matter, the Board will not undertake in this letter to comment upon each of them; but, as S.2789 was introduced by you after the introduction of the other three, will express its views with reference only to that bill.

"The bill S.2789 would extend the insurance of deposits under the temporary Federal Deposit Insurance Fund until July 1, 1935, and the permanent plan would not become effective until that date. The bill also would authorize the issuance of obligations of the Federal Deposit Insurance Corporation with the approval of the Secretary of the Treasury guaranteed both as to interest and principal by the United States, and such obligations so guaranteed would be eligible for purchase by Federal reserve banks and as security for advances made by such banks to their member banks under the provisions of Section 13 of the Federal Reserve Act. The bill also contains an amendment to Section 9 of the Federal Reserve Act under which the terms 'capital' and 'capital stock' for the purposes of membership of a State bank in the Federal Reserve System would include the amount of outstanding capital notes and debentures legally issued by the bank and purchased by the Reconstruction Finance Corporation. A draft of a proposed bill to accomplish these purposes was recently the subject of correspondence between the Federal Deposit Insurance Corporation and the Federal Reserve Board, and the Board stated in that correspondence that it would favor the enactment of a proposed bill which was in form substantially the same as that of S.2789.

"You are advised therefore that the Federal Reserve Board favors the enactment of the bill S.2789."

Approved.

Letter to Mr. McClure, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"This refers to Mr. McAdams' letter of February 9 concerning the application of the First National Bank of Holyoke, Colorado, for 15 additional shares of stock of the Federal Reserve Bank of Kansas City, approved by the Board on February 3.

"It appears that this application was based on an increase of $25,000 in the capital stock of the subject bank, incident to the sale of preferred stock to the Reconstruction Finance Corporation, a certificate of approval of which was issued on January 8, 1934, and that the Comptroller of the Currency on January 29, 1934, issued a certificate approving a reduction from $50,000 to $25,000 in the common stock of the bank, thus offsetting the increase in capital stock due to the issue of preferred stock. It is assumed that the 15 additional shares of Federal Reserve bank stock, the application for which was approved by the Board on February 3, have not been issued to the bank. In the circumstances, the Board revokes its approval, granted on February 3, of the application of the First

"National Bank of Holyoke, Colorado, for 15 additional shares of stock of the Federal Reserve Bank of Kansas City."

Approved.

Letter to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of January 23, 1934, inclosing a copy of a letter addressed to you under date of January 20, 1934, by Mr. Elmer Stearns, Cashier of The First State Bank of Matador, Texas, relating to a possible violation of the provisions of Section 22(g) of the Federal Reserve Act by Mr. A. B. Echols, President of the bank. It has been noted that you have reported this matter to the United States Attorney at Fort Worth, Texas, and, in accordance with the Board's usual practice in such cases, two copies of your letter and inclosure have today been forwarded to the Attorney General of the United States for such action as he considers advisable.

"It has been observed that Mr. Stearns has stated that the matter of increasing Mr. Echols' indebtedness was discussed with the directors of The First State Bank of Matador and with 'an official of the Federal Reserve Bank prior to the increase', to whom the duties of the President and Vice President were explained, and that advice was received that 'the interpretation of the law was not clear but that from our explanation of the duties it did not seem that they (President and Vice President) would be classed as executive officers.'

"In this connection, your attention is directed to the Board's letter of July 11, 1933, with inclosure (X-7493), wherein it was pointed out that, since Section 22(g) of the Federal Reserve Act provides a penalty of fine or imprisonment for violations, the determination of the question whether persons should be prosecuted for such violations is a matter entirely within the jurisdiction of the Department of Justice, and that an expression of opinion by the Board on the question who is to be considered an executive officer would not afford protection from criminal prosecution if the Department of Justice upon consideration of the matter should take the position that a person was within the statute and should feel it necessary to prosecute for a violation thereof. It is suggested that, if you have not already done so, you bring the views of the Board as expressed in its letter of July 11, 1933, to the attention of the officials and examiners of the Federal Reserve Bank of Dallas in order that they may avoid expressing any opinion which might be construed as an interpretation of this section."

Approved.

Governor Black referred to his recent informal discussions with members of the Board with regard to the suggestion that there be organized within the Federal Reserve System credit banks for industry, and stated that on February 20, the President, through the Secretary of the Treasury, requested that a bill covering the proposal be drawn and submitted to him for his consideration, he having stated to Mr. Morgenthau at the time of making the request that he was in favor of the purchase by the Treasury Department from the Federal reserve banks of the stock subscribed for by the banks in the Federal Deposit Insurance Corporation and of allowing the reserve banks to purchase the stock of the credit banks for industry with the proceeds received from the stock of the Federal Deposit Insurance Corporation. Governor Black also stated that on February 21 Mr. John J. Blaine, one of the directors of the Reconstruction Finance Corporation, had called on him, at the request of the President and after a conference with the latter, and stated that he was in thorough agreement with the suggestion and that he did not feel that the Reconstruction Finance Corporation was in a position to undertake the activity. The Governor added that a bill was being prepared in accordance with the President's request, and that in order that the Federal reserve banks might be informed regarding the matter he had talked with the governors of all Federal reserve banks except Boston, and, in the absence of Governor Young, with Mr. Curtiss, Chairman of the Boston bank, and that all except Mr. Curtiss and Governor Norris at Philadelphia, had expressed approval of the plan.

The matter was discussed briefly, and the Governor was requested to proceed with the drafting of the bill, with the understanding that it will be submitted to the individual members of the Board for consideration when completed.

The Governor called attention to the fact that the provisions of Section 404 of the Emergency Banking Act of March 9, 1933, as amended, under which Federal reserve banks may make direct loans to non-member banks and trust companies, will expire on March 9, 1934; that an extension by Congress of the effective period of the section had not been requested, and that Mr. Oliver of the Treasury Department had called on him during the week and had stated that the authority given to the Federal reserve banks by the section is of importance to the mutual savings banks of New York for the reason that they have established a mortgage company for the purpose of borrowing from the Reconstruction Finance Corporation, and a non-member trust company for the purpose of borrowing from the Federal Reserve Bank of New York for the benefit of the mutual savings banks, and that if the provisions of Section 404 of the Emergency Banking Act are not continued in effect the entire borrowing arrangement will be rendered ineffective. Governor Black called attention to the fact that under the provisions of the Federal Reserve Act, as amended by the Banking Act of 1933, mutual savings banks may become members of the Federal Reserve System, and that the question presented is whether Mr. Oliver should be advised that (1) the Board would favor the extension of the effective period of Section 404 of the Emergency Banking Act, or (2) under the provisions of the Federal Reserve Act, as amended, mutual savings banks may become members of the Federal Reserve System and as such avail themselves of the privilege of borrowing from Federal reserve banks, and, therefore, the Board does not feel that the provisions of Section 404 should be extended for a further period to meet the situation referred to.

The Governor was requested to advise Mr. Oliver that the Board had taken the latter position.

Governor Black then referred to the informal conference in his office on February 16, 1934, between members of the Board and Messrs. Owen D. Young and Clarence M. Woolley, directors of the Federal Reserve Bank of New York, during which the directors requested that the Board reconsider the action taken by it on January 22, in disapproving salaries for the year 1934 recommended for certain of the officers of the bank.

After discussion, action on the request was deferred pending the return to Washington on March 7 of Mr. James, who is Chairman of the Committee on Salaries and Expenditures.

Action was also deferred, pending Mr. James' return, on a letter dated January 26, 1934, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, requesting reconsideration of the salaries for 1934 recommended by the directors for Messrs. C. R. McKay, H. P. Preston, J. H. Dillard and A. L. Olson; and on a letter dated February 7, 1934, signed by the directors of the Federal Reserve Bank of St. Louis, expressing the opinion that the adjustment to the rate of $12,000 per annum in the salary of Mr. J. G. McConkey, Deputy Governor and General Counsel, recommended by the directors, should be made.

Mr. Hamlin presented the following letter dated February 21, 1934, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, which was read:

"Referring to the conversation I had with you today, I beg leave to say that the committee, appointed to look carefully into and study the executive personnel of this bank, as suggested in the Board's letter of December 13th, addressed to Governor Norris and referred to again in their letter of January 23rd, has made such an examination and study, and has made a report to this board, submitting the information concerning the executive personnel which they were able to obtain from the bank's records and elsewhere, and expressing the opinion that from the records it is evident that these men had the necessary business experience and the proper background upon which to build, in order to fit themselves for the positions they occupy in this bank. Their records of performance show that they have developed into efficient and reliable officials.

"The report was unanimously adopted, with an expression by the board of its desire, through its committee, to confer with the Federal Reserve Board at such a time as they may designate."

Mr. Hamlin moved that Mr. Austin be requested to forward to the Board, for the consideration of the Committee on District No. 3, the committee report referred to in the above letter, and that following its receipt consideration be given to the matter of a conference of the special committee with the Board's Committee on District No. 3, or with the Board.

Carried.

There was then presented the following memorandum dated February 13, 1934, from Mr. Smead, Chief of the Division of Bank Operations, a copy of which had been furnished to each member of the Board:

"Mr. Broughton of the Treasury Department was asked to consult with Mr. Goldenweiser, Mr. Harlan of the Treasury and myself with regard to changing the legends, etc., now appearing on Federal Reserve notes, Federal Reserve bank notes and National bank notes, and to submit a recommendation on the subject. It is understood that such recommendation as is made will be formally submitted by the Treasury Department to the Federal Reserve Board for any changes it may wish to suggest.

"In this connection you will recall that the legend on Federal Reserve notes now reads: 'Redeemable in gold on demand at the United States Treasury, or in gold or lawful money at any Federal Reserve bank'. Inasmuch as no currency is now being redeemed in gold the question arises as to whether the Federal Reserve banks should continue to pay out Federal Reserve notes bearing this legend. It will be noted that while the legend obligates the Treasury to redeem such notes in gold it obligates the Federal Reserve banks to redeem them either in gold or in lawful money.

"At the present time (February 6, 1934) the unissued stock of Federal Reserve notes on hand at the Bureau of Engraving and Printing amounts to $3,747,540,000, and if this stock was to be scrapped and new notes printed in replacement thereof such new notes would cost approximately $1,557,000. The Bureau also has a stock of approximately 3,893,000 sheets of incomplete Federal Reserve notes on hand, the faces of which have been printed, and the cost of replacing such incomplete currency would be about $257,000. In addition, the Federal Reserve agents on December 31 held $3,603,475,000 of Federal Reserve notes, the Federal Reserve banks $270,262,000 more and there were $3,079,543,000 in circulation. Assuming that the notes held by the Federal Reserve agents are new notes and that the notes held by the Federal Reserve banks and the notes in circulation are one-half worn out, it would cost the System approximately $1,966,000 to cancel and destroy all Federal Reserve notes held by the Federal Reserve banks and agents and all Federal Reserve notes now in circulation as they are returned to the Federal Reserve banks. The total cost of scrapping "the entire stock of Federal Reserve notes, including notes now in circulation would, therefore, amount to approximately $3,780,000.

"It is assumed that this matter will receive the prompt consideration of the Treasury Department, particularly as the legend on the notes requires the Treasury to redeem such notes in gold, but it would seem that the question as to whether such notes should continue to be paid out should also receive the consideration of the Federal Reserve Board. If they are not to be paid out it would also seem that the cost of replacing the notes should be borne by the Treasury Department out of the profit resulting from the reduction in the gold content of the dollar, as it is Governmental policy rather than any action on the part of the Federal Reserve banks which would necessitate the incurring of such expense.

"We have been advised informally by the Bureau of Engraving and Printing that the printing of Federal Reserve note faces has been temporarily suspended."

During the ensuing discussion, Mr. Smead stated that the question of changing the legends now appearing on Federal reserve notes and Federal reserve bank notes had been discussed by him particularly with Mr. Broughton, Commissioner of the Public Debt, and that Mr. Broughton had expressed the opinion that the banks should continue to pay out the notes which are now on hand. Mr. Smead also stated that the Treasury Department proposes to have new plates made for Federal reserve notes and Federal reserve bank notes which it is anticipated will be ready in approximately six weeks; that all future printings of Federal reserve notes and Federal reserve bank notes, which will be resumed as soon as the new plates are ready, will be from the new plates; and that it was his understanding from the Treasury officials with whom he had discussed the matter that the changes in the plates will be submitted to the Federal Reserve Board for consideration before finally approved by the Secretary of the Treasury.

All of the members of the Board present expressed agreement with the suggestion that Federal reserve banks should continue to pay out the Federal reserve notes and Federal reserve bank notes now on hand, that printings of notes in the present form be suspended for the time being, and that consideration of the replacement of the present notes with notes in the new form be deferred.

Consideration was given to the following letter dated February 15, 1934, from Mr. Harrison, Governor of the Federal Reserve Bank of New York, a copy of which had been furnished to each member of the Board:

"Mr. Gates W. McGarrah, one of the two American directors of the Bank for International Settlements, has informally advised us that various banks of issue are planning to send members of their staffs to work for a short period with the economic studies section of the Bank for International Settlements. These men will continue to be paid by their own institutions but will receive, in addition, a daily indemnity from the Bank for International Settlements to cover their subsistence while at Basle.

"The advantages of such visits are believed to be mutual. The men who are temporarily located at the Bank for International Settlements will be engaged in the study of problems of interest both to their respective institutions and to the Bank for International Settlements. They presumably will be a source of ideas in the general field of monetary economics, and of specific information concerning conditions in their home countries, for the permanent staff of the Bank for International Settlements. In return, they will become familiar with the operations of the Bank for International Settlements and will also have the advantage of daily contact with the visitors from other central banks engaged in work of a character similar to their own. In brief, this will provide an opportunity for members of the staffs of the different banks of issue to concentrate most of the advantages of a visit to several foreign central banks in one visit to Basle where, in addition, they can acquaint themselves with the personnel and practices of the Bank for International Settlements.

"We are informed that the Bank of England, the Reichsbank, and the Bank of France will detail junior members of their staffs for this work, and that the Bank of Italy and other banks probably will participate in the plan in some degree. We, ourselves, feel that, if formally invited, we should send one of the members of our foreign information division to Basle for three months to try out the arrangement. The members of our foreign information division are currently engaged in studies of banking and economic conditions abroad, have some familiarity with foreign languages and, it is believed, could most advantageously take part in the program suggested by the Bank for International Settlements.

"We should be obliged if you would advise us whether the Board sees any objection to our sending one of the members of our foreign information division to Basle for a three months period for the purpose mentioned."

The matter was discussed and the opinion expressed that it would be unwise at the present time for the Federal Reserve Bank of New York to send one of its employees to the Bank for International Settlements for the purpose referred to, and that, if anyone were sent, it should be a member of the staff of the Board's Division of Research and Statistics.

At the conclusion of the discussion, Mr. Szymczak moved that Mr. Harrison be advised that, in view of the present financial and economic situation, the Board does not consider it advisable at this time for the Federal Reserve Bank of New York to send an employee to Basle for the purpose stated.

Carried.

Reference was then made to the report submitted by Mr. John W. Pole, Special Adviser to the Federal Reserve Board, under date of February 3, 1934, with regard to banking and other conditions in Puerto Rico, which had been read by all of the members of the Board.

After a brief discussion, the report was referred to Mr. Paulger, Chief of the Division of Examinations, with the request that he review the report and submit to the Board his views thereon, particularly with regard to the condition of the banks in San Juan and Ponce specifically referred to in the recommendation contained in Mr. Pole's report.

It was also understood that, following the receipt of Mr. Paulger's report, consideration will be given by the Board to whether similar investigations should be made of banking and other conditions in other territories and possessions of the United States.

There was then presented a memorandum from Mr. Smead, dated February 15, 1934, which had been circulated among the members of the Board, stating that now that the Board has given formal approval to the retirement system of the Federal reserve banks which is to become effective on March 1, 1934, it will be necessary for the Board, (1) to designate a member of the board of trustees of the retirement system as provided in the rules and regulations of the system, and (2) to decide whether the employees of the Federal Reserve Board are to be covered by the plan. Consideration was also given to a memorandum dated February 16, 1934, from Mr. Wyatt, General Counsel, concurring in the opinion that the Federal Reserve Board has authority to contribute to the pension fund and otherwise participate in the plan.

Mr. Szymczak moved that Mr. James be designated by the Board as a member of the board of trustees of the retirement system to serve until a successor is appointed by the Board.

Carried.

There followed a discussion as to whether the employees of the Federal Reserve Board should be covered by the plan, during which inquiry was made by Mr. Miller concerning the benefits provided for Federal employees under the Civil Service Retirement Act.

At the conclusion of the discussion, Mr. Smead was requested to prepare and submit to the Board a statement containing a comparison of the benefits provided by the retirement system of the Federal reserve banks and by the Civil Service Retirement Act.

There were then presented the following applications for original stock, or for the surrender of stock, of Federal reserve banks:

Applications for ORIGINAL Stock:	Shares	
District No. 1.		
Tanners National Bank in Woburn, Woburn, Massachusetts	72	72
District No. 4.		
Citizens National Bank in Windber, Windber, Pennsylvania	72	72
	Total	144
Application for SURRENDER of Stock:		
District No. 12.		
Security National Bank, Cheney, Washington	45	45

Approved.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

E. R. Black
Governor.