

A meeting of the Federal Reserve Board was held in Washington on Wednesday, August 21, 1935, at 10:40 a. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak
Mr. O'Connor (part of meeting)

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Governor
Mr. Wyatt, General Counsel

Governor Eccles stated that during the present session of Congress the Senate adopted a resolution (No. 71) directing the Senate Committee on Interstate Commerce to make an investigation of financing, credit and security operations, financial policies, etc., of the railroads and their banking and other affiliations; and that, while the resolution limited the expense of the investigation to only \$25,000, it authorized and directed the Committee to obtain the assistance of other agencies of the Government in assembling the information desired. He said that it is contemplated that employees from the Department of Commerce and the Interstate Commerce Commission will be borrowed, and that Mr. Max Lowenthal, who has been placed in charge of the investigation, had inquired whether the Board would be willing to lend the services of Mr. George H. Folsom, an assistant examiner in the Division of Examinations, and of Mr. Lewis N. Dembitz, an employee of the Division of Security Loans, for a period of at least six months in connection with the investigation, and that, upon taking the matter up with Mr.

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Paulger, Chief of the Division of Examinations, and Mr. Parry, Chief of the Division of Security Loans, Mr. Paulger had advised that if it were felt that, in view of all the circumstances, Mr. Folsom should be released for a period of six months, the division could arrange to distribute his work among some of the other examiners, but that Mr. Parry had advised that because of the highly specialized work being done by Mr. Dembitz his release would be so inconvenient as to be virtually impossible at the present time.

Governor Eccles suggested that Mr. Lowenthal be advised that the Board will be glad to make the services of Mr. Folsom available for a period up to six months, that it cannot see its way clear to release Mr. Dembitz, but that if there be any other employee on the Board's staff who can be spared in the place of Mr. Dembitz, the Board will be glad to make his services available.

During the discussion of Mr. Lowenthal's request, Mr. O'Connor stated that because of the financial problems with which the railroads generally are confronted at the present time, and the effect of this situation upon railroad securities, large amounts of which are held by the banks of the country, he felt the Board should approve Governor Eccles' suggestion and advise Mr. Lowenthal that the Board will be glad to have its Division of Research and Statistics give such assistance as it can in the investigation without interfering with its regular functions.

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The Governor was requested to have prepared a letter to Mr. Lowenthal in accordance with the above suggestions.

Governor Eccles referred to a memorandum addressed to him under date of August 13, 1935, by Mr. Wyatt, General Counsel, in regard to the revision of existing regulations and the adoption of new regulations under the Banking Act of 1935. He stated that in accordance with a suggestion made by him some time ago counsel had been working on tentative drafts of the regulations which have been, or will be, reviewed and agreed upon by members of the Board's staff, and that he felt it would expedite the consideration of the regulations if the Board would authorize the transmission of tentative drafts of regulations as agreed upon by members of the staff to the Federal reserve banks for their suggestions and comments, without requiring that the drafts be first submitted to the members of the Federal Reserve Board.

Mr. James raised the question as to whether it would be made clear to the Federal reserve banks that the regulations had been prepared by the Board's staff and not passed upon by the Board and stated that he felt that in order that the Federal reserve banks may feel free to criticize the drafts this point should be made very clear in the letters of transmittal.

During the discussion of Mr. James' suggestion, Mr. Miller proposed that the letter of transmittal to the Federal reserve banks state in each case that the regulation attached had been prepared by the Board's staff but had not been considered by the Federal Reserve Board

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and in order to expedite the matter, was being sent to the Federal reserve banks for their consideration and comment at the same time that copies were being submitted to the members of the Board for consideration.

Mr. Szymczak moved that the procedure recommended by the Governor be adopted with the understanding that the letters of transmittal in each case will contain a statement along the lines suggested by Mr. Miller.

Carried.

Governor Eccles then referred to letters received by him and Mr. Morrill, under date of August 15, 1935, from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, stating that the next meeting of the Council would be held in Washington on September 16 and 17, and suggesting that, because of the fact that the present arrangement under which the Board meets in a preliminary meeting with the Federal Advisory Council before the regular meeting of the Council has not worked very satisfactorily, it might be found desirable to revert to the procedure previously followed under which the Board met with the Council following its regular meeting. The letter to Mr. Morrill also requested that there be sent to Mr. Lichtenstein a list of the topics which the Federal Reserve Board desired the Federal Advisory Council to discuss at its meeting.

Various suggestions were made as to the nature of the reply that should be made to Mr. Lichtenstein's letters and it was decided that the Secretary should prepare a reply for the Governor's signature suggesting that, in

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view of the fact that certain members of the Board will be absent from Washington during the month of September and it is very doubtful whether a quorum of the Board would be available to meet with the Council on September 16 and 17, the meeting be postponed approximately one month; adding, however, that the Board members who might be available would meet with the Council on either of these dates if it prefers to hold its meeting at that time.

There was a brief discussion of the topics which might be considered by the Council at its next meeting, but no action was taken.

At this point Mr. O'Connor left the meeting.

Governor Eccles reported that on yesterday the Secretary of the Treasury had called him on the telephone and had stated that after discussing with the President the desirability of the acceptance by Mr. Harrison, Governor of the Federal Reserve Bank of New York, of the position of director of the Bank for International Settlements, both he and the President felt that it would be desirable for Mr. Harrison to accept the position and attend the October meeting of the board of directors of the bank. Governor Eccles said that he inquired of Secretary Morgenthau whether he desired him (Governor Eccles) to state to the Board that both he and the President were desirous of having Governor Harrison serve as a member of the board of directors of the Bank for International Settlements and desired that the Board grant its permission to Governor Harrison for the acceptance of the position, and that Secretary Morgenthau had specifically requested that such a report be submitted to the Board. Governor Eccles added that he understood that the reason for the request of the Secretary of the Treasury and

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the President was that they felt that through Mr. Harrison's selection they would be able to keep in close touch with the international monetary situation and that it would be in the national interest to have someone attend the meetings of the board of directors of the bank and otherwise contact the Governors of other central banks who attend the meetings.

Governor Eccles also reported that Mr. Herbert Feis, Economic Adviser for the Department of State, had called on him for the purpose of discussing the advisability of having an American representative on the board of directors of the Bank for International Settlements and had said that the State Department felt that the time had come when the United States should be represented in some way, and that it was felt that it would be desirable for Governor Harrison to serve as a director.

Reference was made to the consideration previously given by the Board to the service of Governor Harrison as a director of the Bank for International Settlements and, at the request of Governor Eccles, Mr. Wyatt read the opinion submitted by him under date of November 7, 1933, to the effect that, while there is no provision of law specifically forbidding a governor of a Federal reserve bank to serve as a director of the Bank for International Settlements, it would seem clear that such service would conflict in many ways with the provisions of section 14(g) of the Federal Reserve Act and would render it impossible for the Board effectively to discharge the duties imposed

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upon it by that section. Attention was also called to the statement contained in the opinion that if, notwithstanding the opinion, the Board should desire to permit Governor Harrison to become a director of the Bank for International Settlements it was recommended that the granting of such permission be conditioned upon the board of directors of the Bank for International Settlements adopting a resolution of agreement along certain lines suggested in the opinion.

It was pointed out that the board of directors of the Bank for International Settlements meet every month except during the months of August and September and that there is a serious question whether Governor Harrison would be able properly to discharge his responsibility as Governor of the New York bank and at the same time attend the meetings of the board of directors of the Bank for International Settlements and perform his duties as a director.

Mr. Miller inquired as to whether it was the desire of the administration to have Mr. Harrison serve as a director of the bank or merely attend the meetings in order that he might keep in close touch with developments at the meetings for the purpose of keeping the Treasury Department informed on international monetary matters. He said that he felt that as a practical matter, Governor Harrison could maintain as close a touch with the international monetary situation if he should attend the meetings, as he did last year, as a guest of the Bank for International Settlements, and that in view of the circumstances which resulted in the enactment of section 14(g) of the Federal

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Reserve Act, it would be extremely unwise for the Federal Reserve Board to grant permission to Governor Harrison to accept the position of director.

At the conclusion of a detailed discussion, upon motion by Mr. Hamlin, Mr. Miller and Mr. Wyatt were requested to prepare a memorandum, for the use of Governor Eccles in discussing the matter with the Secretary of the Treasury, setting forth the developments which have taken place heretofore with respect to the possibility of Governor Harrison serving as a director of the Bank for International Settlements, the provisions of Section 14(g) of the Federal Reserve Act, together with the circumstances which led to its enactment, and Mr. Wyatt's opinion of November 7, 1933, but without stating any conclusion as to the action which should be taken by the Board at this time.

It was suggested that it should be made clear in the memorandum that the Board desired to be certain that the Secretary of the Treasury is fully advised as to the legal questions and other circumstances involved, and that in any event the Board would have no objection to Governor Harrison going to meetings of the board of directors of the Bank for International Settlements once or twice a year as an unofficial observer if that should be desired by the Secretary of the Treasury and the President, as it is believed that in this way Governor Harrison would be able to obtain the information desired by them.

It was then stated that if the Banking Act of 1935 be approved by the President in the form in which it had been passed by the Senate and the House of Representatives, the name of the Federal Reserve Board will be changed to the Board of Governors of the Federal Reserve System, and the question was raised as to whether orders should be placed for new stationery, checks, certificates, etc., bearing the name of the Board of Governors of the Federal Reserve System or whether the

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present stocks should be used.

Upon motion by Mr. Hamlin, it was agreed that the stocks of printed stationery and forms now on hand be exhausted before printing new supplies.

In this connection, the Secretary was authorized to prepare a letter to the Federal Reserve Bank of Richmond requesting that the names of the accounts carried on the books of the bank for the Federal Reserve Board be changed to the Board of Governors of the Federal Reserve System.

Attention was called to the fact that it will be necessary for the Board to adopt a new seal and, upon motion by Mr. James, Mr. Miller was requested to give consideration, with the assistance of the Secretary of the Board, to the preparation of a new design of seal for submission to the Board for approval.

Reference was made to section 203(d) of the Banking Act of 1935 requiring the Board of Governors of the Federal Reserve System to keep a complete record of the actions taken by the Federal Open Market Committee on all questions of policy relating to open market operations and a similar record with respect to all questions of policy determined by the Board. Mr. Morrill pointed out particularly that in order to comply with the requirement of the statute the records must set forth both the votes taken and the reason underlying the action of the Board and the Federal Open Market Committee in each instance.

It was agreed that the question of the records to be kept in accordance with the requirement of this section of the law should be determined by the Secretary in consultation with Counsel for the Board.

There was a brief discussion as to the desirability of providing for a stenographic record of the meetings of the Federal Open Market Committee but no action was taken.

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Mr. Miller stated that in view of the change of the name of the Federal Reserve Board to the Board of Governors of the Federal Reserve System the question had arisen as to what inscription should be placed on the Board's new building. Mr. Miller suggested that the most appropriate inscription would be "Federal Reserve".

The other members present agreed with Mr. Miller's suggestion.

Mr. Miller then raised the question as to what action the Board should take with regard to the appointment of Federal reserve agents at certain Federal reserve banks, and Governor Eccles suggested that this was a matter that it would seem should be left for action by the Board of Governors of the Federal Reserve System after February 1, 1936.

Governor Eccles then left the room to attend another meeting.

Mr. Thomas referred to the Board's letter of May 2, 1935, to the Assistant Federal Reserve Agent at Kansas City, with regard to the application of the National Bank of Commerce of Lincoln, Nebraska, for permission to exercise full fiduciary powers in which it was stated that the Board has repeatedly taken the position that, as a general principle, a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liability, that in keeping with this position, it is apparent that, in acting upon applications for fiduciary powers, the Board should consider whether or not the amount of capital and surplus of the applying bank is adequate in the circumstances, and that the Board feels that it should not grant trust powers to the applicant bank as long as the present inadequacy of its capital accounts

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exists.

Mr. Thomas stated that he had given further consideration to the application in question and felt that in view of the fact that the bank is in a liquid position and that a large portion of its deposits are public and bank deposits which are considered temporary in nature making it unnecessary, in the opinion of the management of the bank, to increase its capital, he felt the application should be granted by the Board, if necessary on condition that the bank's capital be increased to an adequate amount. Reference was made to the present policy of the Board that it will not grant trust powers on condition, and Mr. Hamlin stated that in a recent discussion of this matter with counsel the latter had advised informally that he was now of the opinion that the Board had authority to impose conditions in connection with the granting of trust powers and to revoke trust powers previously granted in cases of violations of law and the Board's Regulation F. In this connection attention was called to the fact that Regulation F of the Board, with regard to the exercise of trust powers by national banks, prior to 1928 reserved the right on the part of the Board to revoke trust powers for violations of law or of the regulation.

Mr. James moved that counsel be requested to prepare and submit to the Board for consideration a revision of Regulation F, which would include a reservation on the part of the Board of the right to revoke trust powers for violations of law and the regulation.

Carried.

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Mr. James also moved that, in view of Mr. Thomas' explanatory statements as to the condition of the bank, an exception be made to the Board's general policy in this case, and that the application of the National Bank of Commerce of Lincoln, Nebraska, for full trust powers be approved.

Carried.

Thereupon the meeting adjourned.

Chas. Morille
Secretary.

Approved:

W. S. Lewis
Governor.