

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 21, 1935, at 11:20 a. m.

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

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman

In accordance with the action taken at the meeting of the Board on October 18, 1935, Mr. Miller presented a draft of a letter to Governor Harrison as Chairman of the Federal Open Market Committee, reading as follows:

"The Board has asked me to bring to your attention the provision of the Banking Act of 1935 which amended the last paragraph of section 10 of the Federal Reserve Act to read as follows:

'The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph.'

"Upon analysis it appears that this amendment provides for three records, as follows:

(1) A complete record of the actions taken by the Federal Open Market Committee as now constituted

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"until March 1, 1936, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee. However, the law provides the meeting of the committee, in the discretion of the Board, may be attended by the members of the Board.

(2) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the committee as such and not of the Board as such.

(3) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

"The Board has under consideration the procedure which should be followed in order to carry out the provisions of the statute, and, in view of the meeting of the Federal Open Market Committee on October 22, it is suggested that the committee also give consideration to the procedure in regard to the actions taken by it upon questions of policy relating to open market operations.

"It may be noted in this connection that the amendment requires that the Board of Governors keep a complete record of the actions taken by the Federal Open Market Committee upon all questions of policy relating to open market operations; that the Board shall record therein (a) the votes taken in connection with the determination of open market policies and (b) the reasons underlying the action of the committee in each instance; and that the Board shall include in its annual report a copy of the record required to be kept.

"I may add also that, pending further consideration of the matter, the Board is disposed to accept for the purpose of the required record a report from the Federal Open Market Committee setting forth such actions as may be taken by it upon questions of policy relating to open market operations, the votes taken in connection therewith and the reasons underlying each such action, and that when the committee has discussed the matter

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"the Board will be pleased to be advised as to the views of the committee concerning the procedure which should be followed."

Inquiry was made as to what the reaction of the Board would be to a suggestion or request from the Federal Open Market Committee that the Board's Secretary or other representative attend the meeting of the Committee for the purpose of making the necessary record, and Mr. Miller stated that it was his thought that the suggestion of the Federal Open Market Committee would be followed. Mr. Miller also stated that, the question might arise as to whether the statement of reasons given by the Committee in connection with any action taken would be sufficient to satisfy the requirements of the statute, but that it was not felt that it was desirable to undertake to specify in the letter at this time what would meet the requirements of the law in this respect.

Upon motion by Mr. Szymczak, the proposed letter was approved unanimously and Mr. Miller and Mr. Morrill were requested to submit a recommendation as to the decision to be reached by the Board on the other matters referred to in Mr. Morrill's memorandum of September 12, 1935, with regard to the record to be kept by the Board pursuant to the provisions of the last paragraph of section 10 of the Federal Reserve Act, as amended.

In connection with the above matter, the Chairman again expressed the opinion that the purpose of the last paragraph of section 10 would be achieved if the record to be kept pursuant thereto were confined to important questions of general policy which affect the public interest rather than detailed administrative matters. The opinion was also

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expressed that otherwise the record might be so voluminous as to defeat the purpose sought to be accomplished. All of the members present indicated their concurrence with the above opinions. Mr. Miller stated that it will be necessary for the Board to decide, as situations arise, whether the Secretary will be instructed to prepare a statement of the reasons for the Board's action on a particular matter of policy or whether the reasons will be stated by the Board itself for incorporation in the official record.

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

Reference was made to the draft of letter to the Comptroller of the Currency which was prepared by Mr. Hamlin and called up for discussion by him at the meeting on October 18, 1935, with regard to the applications of the Transamerica Corporation and Inter-America Corporation, San Francisco, California, for voting permits entitling such corporations to vote the stock which they own or control in The Bank of America National Trust & Savings Association, San Francisco, California, the First National Bank of Portland, Portland, Oregon, and the First National Bank of Reno, Reno, Nevada. Mr. O'Connor stated that the excerpt from the minutes of the meeting of the Board on July 12, 1935, had not reached his desk and that, therefore, he had not had an opportunity to give further consideration to the matter. The Secretary stated that a copy of the excerpt from the minutes, and, in accordance with the informal request made by Mr. O'Connor of Mr. Hamlin following the meeting on October 18, a copy of the draft of Mr. Hamlin's letter,

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had been sent to Mr. O'Connor and had reached his office on Saturday morning. Mr. O'Connor stated that apparently through some error in his office the file had not been brought to his attention.

It was agreed that action on the proposed letter should be deferred until the meeting of the Board to be held on Friday, October 25.

The Chairman referred to a letter dated October 19, 1935, received by him from Governor Young of the Federal Reserve Bank of Boston, extending to the members of the Board, on behalf of the Stockholders Advisory Committee of the First Federal Reserve District, a cordial invitation to be present at the annual meeting of the stockholders of the Federal Reserve Bank of Boston on Friday, November 8, 1935.

It was agreed that Mr. Hamlin, and also Mr. James if the latter could so arrange his affairs, should represent the Board at the meeting.

The Chairman also called attention to a letter addressed to him under date of October 19, 1935, by Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, in which he stated that, because of the fact that there would be a very short interval between the dates set for the annual convention of the American Bankers Association in New Orleans and the regular dates of November 18 and 19 on which the fourth meeting of the Federal Advisory Council would be held in Washington if it followed its usual practice, the suggestion had been made that the meeting of the Council be held on November 20 and 21. The letter requested advice as to whether the suggested later dates

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are agreeable to the Board.

Upon motion by Mr. Miller, the Secretary was requested to prepare a letter to Mr. Lichtenstein advising that the Board has no objection to the later dates suggested for the meeting of the Federal Advisory Council and also confirming the understanding set forth in Mr. Lichtenstein's letter that the meeting of the Council with the Board will be held following the Council's separate sessions.

Reference was made to the inquiry submitted to the Board by the Federal Advisory Council at the meeting on September 24, 1935.

After a discussion, during which the minutes of the meeting of members of the Board with the Council on September 24 were read by Mr. O'Connor, Mr. Miller was requested to prepare a draft of reply to the inquiry for consideration at the meeting of the Board to be held on Friday, October 25.

There was then presented a letter addressed to Mr. Szymczak by Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, under date of October 19, 1935, reading as follows:

"We are in the final stages of completing the talking moving picture which I discussed with you when you were here. The first showing of the picture will be made before our Board of Directors on October 26th at 9:00 A.M. Immediately that this showing has been made before the Board of Directors, I am very anxious to bring the picture to Washington and show it to the assembled Board of Governors of the Federal Reserve System and its staff.

"We have put a lot of time and effort and considerable money into this film, with the object of making an interesting educational film, with entire elimination of propaganda, which can be shown to schools, luncheon clubs, bankers' association meetings, etc. The resulting picture indicates to me that the Board will be really interested in it.

"Could you advise me of a definite date after Monday, October 28th, when Mr. Powell and I could bring this film

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"to Washington and show it to the Board and its staff. Behind this desire to exhibit this film to you is the thought that if the Board saw this finished film, it would seriously consider the advisability of getting out a similar film for the whole System - perhaps going further than we have in depicting the abstract theories which we deemed inadvisable to introduce into the picture. If you will advise me if and when the Board and its staff will be willing to give thirty minutes to this film, I shall make all arrangements to show it in Washington.

"Beginning November 19th there will be held a series of group meetings in South Dakota. I am very anxious to offer to show this film at those meetings, but, of course, it obviously can not be shown until the Board has had an opportunity to pass on it. It is for this reason I would like to make the exhibition to the Board in Washington as soon as possible. Since the picture is a 16 mm. print, designed to be shown with portable equipment, we can show it in the Board room in the Washington building."

Mr. Szymczak had referred the letter to Mr. Eccles with a memorandum dated October 21, 1935, which suggested that the Board fix November 1 as the date for the showing referred to in Mr. Peyton's letter. During a discussion of Mr. Peyton's request, Mr. James suggested that it might be advisable to invite some of the officers of the nearby Federal reserve banks to attend the showing. It was felt, however, that as Mr. Peyton's letter indicated that he desired to show the film to the Board and members of its staff for the purpose of obtaining the Board's approval of the film, the showing should be confined to the members of the Board and its official staff.

At the conclusion of the discussion, the Secretary was requested to communicate with Mr. Peyton and make the necessary arrangements to show the film in the Board room on the afternoon of Wednesday, October 30, 1935.

The Chairman stated that, after further consideration, he felt

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because of the voluminous and technical character of the drafts of the regulations of the Board which are now in the course of preparation that it would not serve any useful purpose to discuss them with the Governors when they are in Washington this week and that it would be his suggestion that the memoranda which had been prepared in connection with each of the regulations setting forth the recommendations made by the Board's staff with respect to the principal suggestions of the Federal reserve banks be sent to the Federal reserve agents at all Federal reserve banks with the request that if the officers at the banks have any further comments to make with regard to the regulations they forward their comments to reach the Board within ten days.

In this connection, Mr. Eccles stated that a committee of the American Bankers Association had requested an opportunity to offer suggestions in connection with certain of the regulations and that arrangements had been made to have the committee come to Washington this week to meet with the staff.

At the conclusion of the discussion, upon motion by Mr. James, the Secretary was requested to send copies of the memoranda referred to by Mr. Eccles to the Federal reserve banks with the request that any comments that they may have to make be forwarded so as to reach the Board not later than October 31.

There followed a discussion of topics for the program of the Governors' Conference which will be held this week and Mr. Morrill stated that a copy of the tentative draft of the program which had been received from the Secretary of the Conference this morning had been

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sent to each member of the Board. It was pointed out that the tentative program included, among other topics, (1) the revised regulations of the Board, and (2) responsibility of Chairmen and Presidents of the Federal reserve banks under the Banking Act of 1935.

In connection with the latter topic, there was a general discussion of the functions and responsibilities to be assigned to the Federal reserve agent's department in the Federal reserve banks in the future. The suggestion was made that in connection with the termination on December 31, 1935, of the designations of chairmen and Federal reserve agents, the Board might adopt the policy of allowing the existing designations, with possibly one or two exceptions, to expire in order that the reorganized Board which will take office as of February 1, 1936, may have a free hand in determining policies in connection with the future duties and responsibilities of the Federal reserve agent and his department. In response to a suggestion from Mr. Thomas that such action might not be a compliance with the law, it was suggested that this point could be met, if necessary, by the designation of the senior assistant Federal reserve agents as acting Federal reserve agents. All of the members agreed that if the suggested procedure were followed and the chairmen and Federal reserve agents were not redesignated at certain Federal reserve banks, the work in the agent's department would be carried on efficiently and without difficulty in the absence of a Federal reserve agent during the first few months of 1936. No conclusions were reached on the matter.

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A question was raised as to whether the Board wished to discuss with the governors while they are in Washington the question of salaries for officers and employees of the Federal reserve banks for the year 1936. Mr. Eccles stated that the Board's policy with regard to salary adjustments was stated in its letter of January 5, 1935, and he expressed the opinion that no adjustments should be made in salaries for the year 1936 except in very exceptional cases.

Mr. James stated that this matter presents again the question of the policy that should be adopted by the Federal reserve banks in releasing their surplus employees. He expressed the opinion that most of the Federal reserve banks are over-manned, and that the question involved is whether or not, in the interest of economy, the employees whose services are not needed in the Federal reserve banks should be released. He also stated that a question that will require consideration by the Board is in connection with the compulsory retirement of officers and employees who have reached the age of sixty-five years, and he added that, while these questions should be given consideration as promptly as possible, he did not see how they could be disposed of effectively until after the reorganized Board has taken office.

It was agreed that the matter of salaries at Federal reserve banks should not be suggested by the Board as a topic for consideration with the governors, and that the usual annual letters to all Federal reserve banks with regard to the submission to the Board for approval of salaries for the coming year should state that the Board is of the opinion that when salaries are fixed for officers and employees of the banks for the year 1936 no increases should be

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made in existing salaries except in very exceptional cases where the circumstances involved clearly justify an increase.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on September 17, October 11 and 14, 1935, were approved.

The minutes of the meeting of the Executive Committee of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on September 24, 1935, were approved.

The minutes of the meetings of the Executive Committee of the Board of Governors of the Federal Reserve System held on September 12, 13, 14, 16, 18, 19, 20, 21, 23, 24, 25, 26, 27, 28, 30, October 2, 7, 8, 9, 15 and 16, 1935, were approved and the actions recorded therein were ratified unanimously.

The minutes of the meeting of the Executive Committee (interim) of the Board of Governors of the Federal Reserve System held on October 4, 1935, were approved and the actions recorded therein were ratified unanimously.

The Board then acted upon the following matters:

Letter to Mr. Ward Perrott, Director, Securities and Exchange Commission, reading as follows:

"With reference to your letter of October 14, 1935, directed to the attention of Mr. Leo H. Paulger, Chief, Division of Examinations, Board of Governors of the Federal Reserve System, relative to an application of one of the Board's examiners for employment with the Securities and Exchange Commission, the Board offers no objection to your

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"negotiating with Mr. Godfrey Augustus, or to his release in the event the Securities and Exchange Commission may wish to employ him."

Approved unanimously.

Telegram to Mr. Sproul, Secretary of the Federal Reserve Bank of New York, reading as follows:

"Retel October 18. Board approves appointment of Herman K. Beach as member Industrial Advisory Committee your district for unexpired portion of term ending February 28, 1936."

Approved unanimously.

Telegram to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Your October 17 wire received, in which you state that you would like to tender Mr. Winship, whose principal interests are in the machinery and mill business but who is also president of a Morris Plan Company, a place on the Industrial Advisory Committee, and ask Board whether connection with Morris Plan institution would work against his approval by Board in event he was definitely selected, subject to Board's approval. In light of circumstances set forth in your wire Board does not feel that connection with Morris Plan institution should make him unacceptable as a member of Industrial Advisory Committee."

Approved unanimously.

Memorandum dated October 17, 1935, from Mr. James submitting a letter dated October 10 from Mr. Helm, Deputy Governor of the Federal Reserve Bank of Kansas City, which requested approval of certain changes in the personnel classification plan of the Omaha Branch. The memorandum stated that Mr. Helm's letter expressed the feeling that the proposed changes would provide positions more in keeping with the actual duties performed by the employees assigned to the work, and recom-

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mended that the proposed changes be approved.

Approved unanimously.

Telegram to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, authorizing him to issue a limited voting permit to "The First and Merchants National Bank of Middletown", Middletown, Ohio, entitling such organization to vote the stock which it owns or controls in "The American Trust & Savings Bank of Middletown", Middletown, Ohio, at any time prior to December 31, 1935, to act upon a proposal or proposals to change the name, enlarge the powers, increase the capital stock, change the number of shares of stock and/or change the par value of shares of stock of such bank and to make such amendments to the articles of incorporation as shall be necessary for such purposes; to approve the acquisition of assets and the assumption of liabilities of The First and Merchants National Bank of Middletown; and to take such further action as may be necessary to effect the recapitalization of such bank and the transfer to it of assets and liabilities of The First and Merchants National Bank of Middletown, provided that all action taken shall be in accordance with a plan approved by the appropriate supervisory authorities and satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland. The telegram also stated that it was understood that the details of the transactions involved in the plan would be submitted to the Board for approval upon completion of an examination of the institutions and that the issuance of the voting permit authorized in the telegram did not constitute

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approval of the transaction as required under conditions of membership of The American Trust & Savings Bank of Middletown.

Approved unanimously.

Telegrams to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue limited voting permits to the "Old National Corporation", Spokane, Washington, and "Investment and Securities Co.", Spokane, Washington, entitling each such organization to vote the stock which it owns or controls in "The Old National Bank and Union Trust Company of Spokane", Spokane, Washington, "The First National Bank of Grandview", Grandview, Washington, "The First National Bank of Medical Lake", Medical Lake, Washington, "The Security National Bank of Palouse", Palouse, Washington, "The First National Bank of Reardan", Reardan, Washington, "The First National Bank of Ritzville", Ritzville, Washington, "First National Bank in Sprague", Sprague, Washington, and "The First National Bank of Sunnyside", Sunnyside, Washington, at any time prior to March 31, 1936, to act upon proposals to authorize or ratify agreements for the sale of assets of The First National Bank of Grandview, The First National Bank of Medical Lake, The Security National Bank of Palouse, The First National Bank of Reardan, The First National Bank of Ritzville, First National Bank in Sprague, and The First National Bank of Sunnyside to, and the assumption of the liabilities of such banks by, The Old National Bank and Union Trust Company of Spokane, and to take such further action as is necessary to effect such sale

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of assets and assumption of liabilities, to effect the purchase of assets and assumption of liabilities of the holding company affiliates' subsidiary state banks in Washington, provided that all action taken shall be in substantial accordance with the proposed plans as indicated in Investment and Securities Co's letter to the Board, dated October 2, 1935, and the memoranda and copies of correspondence attached thereto, and shall have been approved by the Comptroller of the Currency and other appropriate supervisory authorities and shall provide for the elimination by all of the banks involved of at least the net depreciation in securities not of the four highest grades, all estimated losses in all other assets, and such other criticized assets as may be required by the Comptroller of the Currency, as shown by current reports of examinations made by national bank examiners or other auditors or examiners and/or current appraisals of investment securities satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of San Francisco.

Approved unanimously.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Board hereby extends for the period until January 1, 1936 the permit extended by its telegram of December 4, 1934 (Trans. 2170), subject to the same terms, conditions, and instructions as the extension granted by that telegram. As you know, the amendments to section 32 of the Banking Act of 1933 which become effective on January 1, 1936 will eliminate from that section all reference to correspondent relationships, and will therefore make any further extension of the permit unnecessary. Accordingly, it was not felt necessary for you to advise the Board whether

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"in your opinion the permit should be extended, as was requested in Trans. 2170 before the enactment of these amendments. Please advise all member banks in your district concerning this extension of the permit."

Approved unanimously.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"From conversations between a member of Board's Staff and a member of Staff of Federal Power Commission it is understood that such Commission will not be able before October 25, 1935, to rule upon question of applicability of section 305(b) of Federal Power Act to service of any person as officer or director of public utility and as officer or director of Federal Reserve bank or member bank. Accordingly, if you receive any inquiries on this subject, you may wish to suggest that any person who is serving in such positions may desire to give consideration to the advisability of filing an application with Federal Power Commission before October 25, 1935, for authorization to hold such positions. Such applications and any requests for interpretations of such section should be filed directly with Federal Power Commission and not with Board."

Approved unanimously.

Letter to Mr. A. E. Giegengack, Public Printer, Government Printing Office, reading as follows:

"Reference is made to the telephone conversations on October 17 and 18, 1935, between your Mr. Mitchell, Superintendent of Planning, and Mr. Carpenter, Assistant Secretary of the Board of Governors of the Federal Reserve System, with regard to printing errors discovered in the revised edition of the Federal Reserve Act, as amended to October 1, 1935, which was printed by the Government Printing Office for the Board under Board requisition No. 3287 and Government Printing Office jacket 139714.

"As Mr. Mitchell was advised by Mr. Carpenter, a large number of errors were found in the volume, caused by one or more letters in a word not being printed. There is attached a copy of the Act, on 62 pages of which have been indicated one or more errors discovered in the Board's offices as the result of a hasty reading of the Act. There

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"are undoubtedly many other errors which were not found in this reading, and it is understood from Mr. Mitchell that the volume has been or will be carefully checked by your proof readers to insure the elimination of all printing errors in the reprinting of the Act. In addition to the printing errors of the character referred to above there are many other words in the volume in which individual letters have printed very lightly or only partially.

"Mr. Mitchell advised over the telephone that these errors were the result of the type not being properly dressed before being placed on the press, and that this operation, known as the 'make ready' which he estimated would have taken approximately twelve hours, was eliminated to save that much time. As you know, the Board requested that a '20% rush' be placed on the job in order that the edition might be made available as soon as possible. In view of these circumstances the Board feels that it was justified in pressing for the completion of the work and that the requests made by Mr. Thomas, a member of the Board, and Mr. Carpenter, that the work be expedited did not justify the placing of the type on the press before it was properly prepared.

"None of the copies received has been sent to the Federal reserve banks and no distribution has been made outside of the Board's offices. The volume is not acceptable to the Board and cannot be used by it for the purposes intended and it will be necessary, therefore, that it be reprinted.

"As the errors are purely mechanical ones resulting from the elimination of a necessary step in the printing process the Board has taken the position that the edition should be reprinted at the expense of the Government Printing Office.

"It is understood from Mr. Mitchell that it will take approximately three weeks to reprint and bind the 20,000 copies ordered. It is requested that the reprinting be commenced immediately and it will be appreciated if you will take whatever steps are necessary to give the work every possible preference as the Board is in urgent need of the copies of the Act for distribution to the Federal reserve banks and member banks of the Federal Reserve System.

"In taking the position that it would not be justified in assuming any of the expense of reprinting the edition of the Act the Board requested me to express to you its regret that the occasion for such a decision has arisen and its appreciation of the cooperation of the Government Printing Office in handling the Board's printing work in the past."

Approved unanimously.

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Thereupon the meeting adjourned.

Chesley M. Mowbray
Secretary.

Approved:

W. S. Cullen
Chairman.