

A meeting of the Board of Governors of the Federal Reserve System with the Federal Open Market Committee was held in Washington on Thursday, October 24, 1935, at 10:10 a. m.

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

Mr. Morrill, Secretary  
 Mr. Bethea, Assistant Secretary  
 Mr. Carpenter, Assistant Secretary  
 Mr. Goldenweiser, Director of the Division  
 of Research and Statistics

ALSO PRESENT: Governors Young, Harrison, Norris, Fancher, Seay, Newton, Schaller, Martin, Geery, Hamilton and Calkins, Members of the Federal Open Market Committee.  
 Mr. R. R. Gilbert, Deputy Governor, Federal Reserve Bank of Dallas.  
 Mr. W. Randolph Burgess, Secretary of the Federal Open Market Committee.  
 Mr. H. F. Strater, Secretary of the Governors' Conference.  
 Mr. T. J. Coolidge, Under Secretary of the Treasury.

Governor Harrison, as Chairman of the Federal Open Market Committee, stated that the Committee had met on October 22 and 23. He said that in response to the Board's letter of October 21, 1935, the Committee had considered the procedure to be followed in connection with the record, required to be kept by the Board of Governors of the Federal Reserve System pursuant to the last paragraph of section 10 of the Federal Reserve Act, as amended, of actions taken by the Federal Open Market Committee, and that it was agreed that, for the remaining meetings of the Federal Open Market Committee as now constituted, the Secretary of the Committee should prepare an appropriate record of the actions taken,

10/24/35

-2-

the votes cast in connection therewith, and the underlying reasons therefor which would be submitted to the Board.

Governor Harrison also reported that the Committee considered the report of open market operations submitted by the Secretary of the Committee and the preliminary memorandum on money market and credit conditions prepared by the chairman, following which the Committee, at its sessions on October 22 and 23, discussed in detail the present business situation, the extent of business revival, excess reserves of member banks, and other factors entering into the consideration of open market policy.

He said that the Committee adopted two resolutions, (1) authorizing the Executive Committee to make shifts in maturities of securities held in the system account up to an aggregate of \$300,000,000, provided the shifts do not result in reducing securities with maturities within two years to an amount under \$1,000,000,000, and provided further that the shifts do not result in increasing the Government bonds held in the account to an amount in excess of \$500,000,000; and (2) authorizing the Executive Committee, in an emergency or in a case of need, to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and of the Board. He stated that the first resolution contemplated a continuance of similar authority previously granted to the Executive Committee as necessary in the proper administration of the open market account and the second was thought necessary, particularly if the Board should increase reserve requirements of member banks, when it

10/24/35

-3-

might be found necessary to offset, through open market operations, any unsettlement that might result in the Government bond market.

Governor Harrison then read a tentative draft of a resolution adopted by unanimous vote of the Federal Open Market Committee on the general question of open market policy and stated that, while the resolution represented some compromise of views, it also represented the minimum of what the members of the Committee thought should be done. He added that some of the governors felt it would be wise to commence at this time, with the approval of the Board and provided the Treasury had no substantial objection, to reduce the system portfolio, but that a majority was opposed to such action. He also said that there were some members of the Committee who favored a more definite and affirmative recommendation for immediate action raising reserve requirements of member banks, but that a majority of the Committee felt that it would be preferable not to take such action without a more thorough study than was apparently available.

Mr. Eccles stated that the information referred to in the tentative resolution read by Governor Harrison with regard to the amount and location of excess reserves could be made available within a few days. Governor Harrison said that a survey had been made in the Second Federal Reserve District and the conclusion reached, on the basis of the study, that any likely increase in reserve requirements would not result in any undue difficulty to the member banks in the district.

Governor Harrison then invited Mr. Coolidge to make any statement that he might desire. Mr. Coolidge replied that he had no comments

10/24/35

-4-

to make on the matter of open market policy, but that he would refer briefly to the savings bonds being issued by the Treasury Department at the present time. He said that the Department felt that it was desirable, not from the standpoint of raising additional funds but rather from the standpoint of the wider distribution of Government securities, that the character and availability of the bonds be made known to the public. He referred briefly to the steps being taken by the Treasury Department in advertising the bonds and stated that it had been arranged for a representative of the Treasury to visit the various Federal reserve banks and contact banks in the various districts, and that it was desired to have some officer in each of the Federal reserve banks assigned to answer questions and handle related matters with regard to the bonds. Mr. Coolidge stated further that he felt that if the savings bonds were to be a success it will be necessary that they have the approval and support of the banks throughout the country.

Governor Young called attention to the fact that at the present time savings bonds are available only at the United States post offices and inquired whether the bonds could be sent to the banks on consignment against collateral under a procedure similar to that followed in connection with the sale of war savings stamps during the war. Mr. Coolidge replied that the banks might take the customers' orders for the securities and forward them to the post offices and that blanks could be furnished to the banks for this purpose. He added that there was some question as to whether the

10/24/35

-5-

Post Office would wish to make every bank an agent in the sale of the bonds. During a brief discussion of this matter, Mr. Coolidge stated that the purpose of the Treasury Department in the sale of savings bonds is to effect a wider distribution of Government securities, to interest the public in the general monetary policies of the Government, and to help people save something that they otherwise might not save.

At the conclusion of this discussion, Messrs. Coolidge and O'Connor left the room.

Governor Harrison inquired whether any change in the procedure followed at the meetings of the Board with the Federal Open Market Committee would be made as a result of the last paragraph of section 10 of the Federal Reserve Act, as amended. It was stated that the statute required only that a record be made of the action taken on matters of policy, the votes cast in connection therewith, and the underlying reasons therefor, and that, therefore, no change was contemplated in the procedure previously followed in meetings with the Committee as now constituted under the law.

Mr. Eccles inquired whether the Committee desired that action be taken by the Board on the two resolutions adopted by the Committee authorizing shifts in maturities and purchase or sale of securities. Governor Harrison stated that the authority to make shifts in maturities had been given to the Executive Committee as a matter of orderly procedure and that the Board had not required in the past that its

10/24/35

-6-

approval of such authority be obtained. He added that he saw no objection to the Board approving such authority to the Executive Committee and felt that there would be some advantage in the establishment of a general policy to govern shifts in maturities in the system account.

Mr. Eccles stated that he felt that the Board is vitally interested in the question of shifts in the system account for the reason that the relation of maturities to the ability to sell the securities held is an important factor in carrying out an open market program. Governor Harrison replied that while, in his opinion, the authority to make shifts in maturities should not be vested in a large group, a policy with regard to shifts is necessary.

In response to an inquiry from Mr. Miller it was stated that approximately \$1,200,000,000 of securities held in the System account at the present time mature within two years. Mr. Miller then inquired of Governor Harrison as to the reason for the limit of \$1,000,000,000 in the resolution adopted by the Federal Open Market Committee with regard to shifts in maturities. Governor Harrison replied that the Federal Open Market Committee felt that if, without violating any principle of central banking, a shift could be made from shorter maturities in the system account to Government bonds it might be wise to take such step because of the present disparity between long and short term money rates. At the present time, Governor Harrison said, the Federal reserve banks hold approximately \$236,000,000 of bonds and it was felt that it might have a helpful influence on the rate structure if, over a period, the total of bonds held were in-

10/24/35

-7-

creased to a maximum of approximately \$500,000,000, if that could be done without affecting adversely the system's power of control.

Mr. Miller expressed the opinion that the power of control is reduced whenever securities are purchased that cannot be freely disposed of in the furtherance of open market policy, and that there was some danger of freezing the open market account by increasing holdings of longer maturities.

Governor Harrison stated that another element in the question of maturities in the investment account is the factor of earnings of Federal reserve banks. He pointed out that until approximately two years ago it was the practice not to place in the open market account any securities with maturities in excess of five years and that the reason longer term bonds were placed in the account was partly because of the earning position of the Federal reserve banks. He stated that, in his opinion, the question was whether in view of the possibility that there may be a long period when earnings of Federal reserve banks may be low, it would be appropriate at this time to increase the system holdings of long term bonds with higher interest rates to approximately \$400,000,000 or \$500,000,000, to be determined by conditions as they develop, with a view to freeing the open market policy from the consideration of its effect upon earnings.

Governor Young said that it had been the understanding at the meeting of the Federal Open Market Committee yesterday that the general resolution read by Governor Harrison earlier in the meeting was in tentative form and that it would be mailed to each member of the Com-

10/24/35

-8-

mittee for any suggestions as to changes in phraseology but not of substance, before being placed in final form and presented to the Board.

It was understood that the resolution referred to would be sent to the members of the Committee for suggestions as to changes in phraseology and that it would be submitted in final form in the minutes of the meeting of the Federal Open Market Committee to be transmitted to the Board by the Secretary of the Committee.

Thereupon Governor Harrison announced that there were no further matters to be presented to the Board by the Federal Open Market Committee and that it was understood that the meeting would continue as a meeting of the Governors' Conference with the Board of Governors of the Federal Reserve System.

At this point Mr. Clayton, Assistant to the Chairman, Mr. Thurston, Special Assistant to the Chairman; Mr. Wyatt, General Counsel; Mr. Paulger, Chief of the Division of Examinations; Mr. Smead, Chief of the Division of Bank Operations; and Mr. Parry, Chief of the Division of Security Loans, joined the meeting.

Governor Calkins, as Chairman of the Governors' Conference, read the following digest of the actions taken at the Governors' Conference held following the conclusion of the meeting of the Federal Open Market Committee on October 23:

"I. - Requirement of Board of Governors that reports of indebtedness of employees in the Federal Reserve Agent's Department be made semi-annually.

"This topic, which was not on the program, was submitted by Governor Young, with the ex-



10/24/35

-9-

"planation that the Boston Reserve bank directors asked for an annual report of indebtedness from employees of the bank and that it was confusing to have different policies in effect in the two divisions of the staff.

"Voted to ask the Board of Governors to revise its request for information regarding indebtedness of employees of the Federal Reserve Agents' departments to provide for annual reports in conformity with the general practice of the Federal Reserve banks.

"II. - Report of Leased Wire Committee.

"Voted that the report be accepted and the committee's recommendation approved.

"III. - Report of Standing Committee on Collections.

"Voted that the report of the Standing Committee on Collections, and its recommendation that each Federal Reserve bank determine for itself a method of handling drafts drawn on non-banking institutions, received on Saturday, and whether the float arising therefrom should be absorbed, be approved.

"IV. - Report of Committee on Reimbursable Expenses.

"Governor Fleming, Chairman of the Committee, reported informally on the progress made.

"Voted that Governor Fleming's report be accepted as an interim report of the Committee. The Committee was instructed to continue its studies and report to the next conference. It was the sense of the Conference that the Committee should take reasonably prompt steps to ascertain from the Treasury and the various Governmental Agencies the extent to which they will agree to reimburse the Federal Reserve banks for expenses chargeable to them under the instructions contained in the Expense Manual.

"V. - Shipments of currency and coin to nonmember banks within the district and to points beyond district limits.

"Voted that this is a reasonable accommodation to accord to nonmember banks within the district provided the shipping charges are reimbursed to the Federal Reserve banks and that there was no objection to performing the same

10/24/35

-10-

"service for nonmember banks in adjoining districts provided the nonmember bank is located in a city or town adjacent to the district boundary, upon the same basis.

"VI. - Desirability of Reserve banks adopting a time schedule for direct sendings by Air Mail.

"Voted to refer this to the Standing Committee on Collections for study and report to the next conference.

"VII. - Meeting days of Directors.

"Voted that it is desirable that meetings of the Boards of Directors of the twelve Federal Reserve banks be held on the same day and that the Board of Governors be asked to arrange with the several Reserve banks for uniformity in this regard to become effective after February 1, 1936.

"VIII. - Postage surcharge on currency and securities.

"Voted that the Board of Governors be requested to consult with the Postal authorities with a view to bringing about a discontinuance of the surcharge applying to such shipments made by the Federal Reserve banks.

"IX. - Acceptance of deposits of uninvested trust funds by Federal Reserve banks (Board letter, X-9253 of July 1, 1935)

"Voted to recommend that:

1. A member bank operating a separate trust department, or
2. A trust company engaged exclusively in conducting a trust business and owned by a member bank,

be permitted to carry, at the option of the Federal Reserve bank, an account on the books of the Federal Reserve bank representing trust funds awaiting investment or distribution.

"Transactions in such trust account must be confined to transfers to and from the reserve account of the member bank.

"Governors Seay, Schaller, Norris and Fleming voted in the negative.

10/24/35

-11-

"X. - Board of Governors' Building Account.

"Revision of accounting procedure to permit charge-off of entire amount of assessments or establishment of appropriate reserves.

"Voted that assessments levied by the Board of Governors of the Federal Reserve System, to purchase a site and construct a building to house the Board, be charged to Profit and Loss by the Federal Reserve banks.

"XI. - Publicity requested by member banks including newspaper copy to be prepared by the System featuring at times par check clearance.

"Voted that the furnishing of such publicity material be left to the discretion of the individual Federal Reserve banks.

"XII. - System interest in threatened litigation with trustees of Fletcher-American National Bank.

"Voted that if a suit is filed against the Federal Reserve Bank of Chicago it shall be deemed a matter of System interest and that General Counsel for the Board of Governors may, in his discretion, call upon counsel for one or more of the Federal Reserve banks for assistance or recommend that Special Counsel be employed to defend the suit.

"XIII.-Granting of sick leave to employees in excess of thirty days.

"Voted that a definite procedure for the approval of the payment of salaries to employees absent on account of sickness be adopted by the Board of Directors of each Federal Reserve bank and that such procedure be submitted to the Board of Governors.

"It was further voted that Governors Hamilton and Martin are appointed a committee to discuss this matter with the Board of Governors

"XIV. - Discount rate on 10(b) loans.

"No action was taken. The Governors discussed the whole matter of rates under this provision of the Act and it was the general opinion that the establishment of an abnormally low rate at this time was of no particular importance, nevertheless it was felt that the fact that most of the Reserve banks had established 10(b) rates at the minimum figure stated in the law

10/24/35

-12-

"should not be construed as a precedent to prevent appropriate increases in the rate commensurate with the character of the collateral and the earnings therefrom accruing to the member bank."

Governor Harrison stated that the Secretary of the Treasury desired to have the Federal reserve banks discontinue the issuance of the old form of Federal reserve notes which state on their face that they are payable in gold at the United States Treasury or in gold or lawful money at any Federal reserve bank. He said that he felt that all Federal reserve banks would like to issue notes in the new form but that all the banks had substantial stocks of the old notes on hand which had cost approximately \$2,000,000 which amount would represent a loss to the banks unless reimbursement were made. The Secretary of the Treasury felt, Governor Harrison said, that the Treasury should reimburse the banks for the cost of printing the existing unissued stocks of Federal reserve notes in the old form and had requested the Under Secretary of the Treasury to draft a bill to be presented at the next session of Congress, authorizing reimbursement to the Federal reserve banks from the increment resulting from the devaluation of the dollar pursuant to the Gold Reserve Act of 1934.

Mr. Miller inquired whether the Federal reserve banks had a right, on their own volition, to destroy the old notes and raised the question whether the proper procedure would be for Congress to authorize the Federal reserve banks to destroy the notes.

It was pointed out that Section 16 of the Federal Reserve Act provides that Federal reserve notes shall be in form and tenor as

10/24/35

-13-

directed by the Secretary of the Treasury and it was suggested that he might terminate the issuance of notes in the old form.

It was also suggested that the Federal reserve banks might discontinue the issuance of notes in the old form and hold the existing stocks of such notes until it is determined whether or not authority can be obtained by the Treasury Department to reimburse the Federal reserve banks for the cost of the notes.

The discussion developed that it would be from two and a half to three years before existing stock of notes of the old form could be exhausted and that, while the present stocks of new notes are not large enough to permit of the issuance exclusively of new notes, the program of printing could be expedited with a view to the exclusive issuance of new notes. In this connection Governor Harrison stated that the New York bank is issuing notes in the new form as far as practicable.

With respect to the suggestion that, as the Secretary of the Treasury has the authority to prescribe the form of Federal reserve notes, he might terminate the issuance of notes in the old form, Chairman Eccles stated that, while he felt the Treasury Department would be willing to take such a step if necessary, he thought it would be helpful if it could be reported to the Secretary that the matter had been discussed and that the Governors had no objection to his taking such action.

In this connection it was pointed out that the Governors could not commit their banks on the question of the discontinuance

10/24/35

-14-

of the issuance of the old notes without taking the matter up with the boards of directors of the various Federal reserve banks and some of the governors expressed the opinion that because of the expenditure involved their directors would not be in favor of the destruction of existing stocks without reimbursement.

Upon inquiry from Mr. Szymczak, Mr. Wyatt stated that, while he had not looked into the matter and therefore could not express a definite opinion, he believed that the Federal reserve banks had the right to absorb the cost of the notes but that as a matter of equity the Treasury Department should bear the cost. He stated that on this question he did not feel that it made any difference from a legal standpoint whether the initiative were taken by the Federal reserve banks or elsewhere.

Governor Harrison called attention to the fact that under the law the Federal reserve banks could obtain only such notes as were issued to them by the Federal reserve agents and that it would seem that the matter was one to be decided by the Board of Governors and the Treasury.

At the conclusion of the discussion, Governor Eccles suggested that no action be taken on the matter and that the attention of the Secretary of the Treasury be called to the fact that he had authority, under the law, to prescribe the form of Federal reserve notes and if that power were exercised it would avoid the necessity of the governors presenting the matter of destruction of stocks of notes in the old form

10/24/35

-15-

to their boards of directors for decision.

There were then distributed to each of the governors present copies of the memoranda summarizing the recommendations made by the Board's staff with respect to the principal suggestions of the Federal reserve banks in connection with the drafts of the regulations of the Board now in course of preparation. Mr. Eccles expressed the appreciation of the Board for the suggestions received from the banks and stated that, while it was apparent that it would not be possible to adopt all of them, they were being given very careful consideration by the staff, and it was hoped that when the regulations had been adopted and issued by the Board they would be considered by the banks as regulations of the System in the formulation of which the banks had a part. He reported that a committee of the American Bankers Association had worked on the copies of the drafts sent to the Federal reserve banks and had made certain suggestions. He referred to the fact that copies of these memoranda had already been sent to the Federal reserve agents. He said also that the governors might wish to go over the memoranda referred to above while they are in Washington and discuss any questions they may have with members of the Board's staff. It was understood generally that the governors would consider the memoranda and join with the Federal reserve agents in sending to the Board any further comments that they may have to make to reach the Board not later than October 31, 1935.

Mr. Eccles then read the memorandum submitted by him at the

10/24/35

-16-

meeting of the Board on October 18, 1935, with regard to the discharge by the Board of the responsibilities placed upon it by the Securities Exchange Act of 1934, and stated that as an alternative to the building up of a large organization in Washington or organizations at the Federal reserve banks, separate from the banks, the Board had made use of the services of officers and employees at the various banks, who in some cases were in the agent's department and in other cases in the banking department. He referred to the question, created by the Banking Act of 1935, as to the future duties and responsibilities of the Federal reserve agent's department and stated that, if the office of chairman and Federal reserve agent were to be continued as a full time highly paid position, it would appear that the work referred to in the memorandum should be placed in his department whereas if the functions of the agent's department were to be reduced to a minimum, the work might be placed under the president of the bank. He also stated that, as this matter undoubtedly would not be settled until after the reorganized Board takes office as of February 1, 1936, and as the problems being presented in connection with the duties and responsibilities of the Board arising out of the Securities Exchange Act of 1934 are becoming more important, he desired to suggest that the governors take a special interest in the subject and cooperate with the Board in conducting the work at the banks pending a decision of the organization to be effected and to avoid if possible, for the present at least, the necessity for any material increase in the Board's staff in



10/24/35

-17-

Washington or the setting up of new offices at the Federal reserve banks.

At the request of Mr. Eccles, Mr. Parry referred to the circumstances under which Regulation T had been issued in 1934, and stated that, after a year's experience he was of the opinion that the regulation could be materially simplified and that, when the Board decides to issue a corresponding regulation covering securities loans by banks, both regulations can be in a simplified form. He referred to the fact that the questions arising under the Securities Exchange Act and the Board's Regulation T which have been forwarded to the Board through the Federal reserve banks in some cases have not been accompanied by recommendations as to the solution of the problem, and that the assistance of the Federal reserve banks in that connection would be appreciated. He also pointed out that persons inquiring at Federal reserve banks in connection with problems arising under Regulation T in some instances had been referred to some junior officer or employee of the bank with the result that at times embarrassment had been created. He then stated that the larger question now confronting the Board was that of enforcement of the regulations issued pursuant to the provisions of the Securities Exchange Act, and that, while responsibility for enforcement had been placed upon the various securities exchanges, there were certain responsibilities which appear to belong to the Board of Governors of the Federal Reserve System or the Securities and Exchange Commission, or both, which presented

10/24/35

-18-

a complicated problem of procedure, and that a somewhat better organization of this phase of the work would be needed in the future.

It was indicated by some of the governors that they were under the impression that the activities of the Federal reserve banks with regard to the Securities Exchange Act of 1934 had been placed in the agent's department and that, for that reason, they had not concerned themselves with the matter.

Mr. Eccles said that it was not proposed at this time to make any change in the existing arrangements at the Federal reserve banks with regard to the administration of the responsibilities of the Board arising under the Securities Exchange Act of 1934, but that the matter was being brought to the governors' attention as a problem in meeting which they could be helpful pending a decision by the Board as to the organization to be effected.

At the request of Mr. Eccles, Mr. Goldenweiser reviewed the present business situation, the operation of Regulation T with respect to the use of credit in the purchasing and carrying of securities, the effect of gold imports into the United States, and the conditions under which a cessation of gold imports might take place. In connection with Mr. Goldenweiser's statement there were distributed copies of a confidential memorandum on business and credit conditions, and of a second memorandum on the subject of international gold and capital movements. Mr. Goldenweiser stated that the second memorandum had been marked "highly confidential" because it should not be

10/24/35

-19-

made public and that its circulation even among the officers of the reserve banks should be restricted.

At the conclusion of Mr. Goldenweiser's statement the meeting adjourned.

Chester Moriep  
Secretary.

Approved:

W. S. ...  
Chairman.