A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Thursday, November 21, 1935, at 10:10 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Currie, Assistant Director of the Division of Research and Statistics (first part of meeting)

ALSO PRESENT: Messrs. Steele, Perkins, Loeb, Braun, Gohen, Young, Smith, Wold, Kemper, Frost and Arnold, Members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts.
Mr. Edward E. Brown, President of The First National Bank of Chicago, Chicago, Illinois, representing the Seventh Federal Reserve District.
Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council.

The Secretary of the Council read the following statement which he reported had been adopted by the Council at its meeting yesterday:

"The Federal Advisory Council acknowledges receipt of the letter of the Secretary of the Board of Governors of the Federal Reserve System dated November 12, 1935 in which the Board asks the advice of the Council in reference to 'the desirability of asking a small group of the larger member banks to fill out a schedule showing in each case the deposits of "'the bank's fifty or one hundred largest depositors on four dates in each year for the past six years, classified by a broad classification', etc.

"The members of the Council as individuals see no objection to banks giving the information, but the Council as such does not desire to express an opinion on this subject."

The president of the Council stated that it was the feeling of the Council in considering the Board's request that the amount of a corporation's deposits standing alone might mean very little; that a corporation might have been losing money for four or five years, but with smaller accounts receivable, inventories, etc., might be in a better cash position than at the beginning of the period during which losses were incurred. He said that, however, all of the members of the Council had indicated that they would be glad to have their banks prepare the information desired should the Board decide to make the request.

Chairman Eccles stated that the Board desired information with regard to deposits, not because of its bearing on the financial position of the depositors, but for the purpose of determining the type of ownership and velocity of deposits concerning which no accurate current data is available. He added that it was felt that the concentration of the ownership of deposits was an important factor in the development of the depression and is of importance today in connection with the recovery movement and that it was desirable that the Board have information on the subject available to it in connection with the consideration of credit policies.

At the request of Mr. Eccles, Mr. Currie outlined briefly the reasons which prompted the suggestion that information with regard to large deposits be obtained.

Mr. Young inquired what use would be made of the information, if and when obtained by the Board, and Mr. Eccles replied that it would be helpful in the determination of System credit policies in connection with which it was believed all the information that could be made available should be obtained. He pointed out that if there was a tendency towards a large concentration of deposits in the hands of a few corporations and individuals, the use of which might have a considerable bearing upon the effectiveness of a monetary and credit policy, it was important that the Board have that information.

Mr. Frost inquired whether any plan has been suggested to prevent the concentration of deposits and Mr. Eccles replied that he knew of none. Mr. Frost stated that in approving the statement quoted above the members of the Council desired to express their willingness to cooperate in the study so far as their own banks were concerned, but that they did not feel that they should suggest to other banks that they furnish information with regard to deposits in such banks.

At this point Mr. Currie left the meeting.

Mr. Lichtenstein then read the following recommendation adopted by the Federal Advisory Council at its meeting yesterday:

"The Federal Advisory Council understands that the Board of Governors of the Federal Reserve System is contemplating issuing regulations to deal with the control of "collateral loans to be made by banks. The Council, therefore, reaffirms herewith its recommendation of May 15, 1934, reading as follows:

'The members of the Federal Advisory Council are of the opinion that the Federal Reserve Board before issuing regulations under this bill, provided it is enacted into law, should make a careful study as regards the needs of the situation. It should be pointed out that the power conferred on the Board is to be permissive and not mandatory. Consequently, there is no need for the Board to issue any regulations until there is evidence that there is necessity for them. In general the members of the Council feel that if the Board conscientiously can refrain from adding unnecessarily to the innumerable regulations, orders, and laws of all kinds under which banks are at present compelled to operate it will be doing a distinct service.

'If and when the Federal Reserve Board deems it necessary and advisable to issue regulations under this provision of the proposed law then it is to be hoped that the Board will bear in mind the need for maintaining adequate markets not merely for securities listed on the more important exchanges of the country but also for securities which have merely a restricted local market and those which are sold over the counter and not listed. Stringent regulations may result in destroying the market for the securities of small worthy industries and thereby possibly destroy these industries themselves by making it impossible for them to obtain needed capital.'"

At the request of Chairman Eccles, Mr. Parry outlined briefly the scope of the authority of the Board to prescribe a regulation covering the extension and maintenance of credit by banks for the purpose of purchasing and carrying securities; pointed out that there was some difference of opinion as to whether the issuance of such regulation by the Board was permissive or mandatory under the law; and stated that the postponement of the issuance of the regulation had met the practically unanimous approval of all parties interested. He stated, however, that more recently reasons had appeared which suggested the advisability of the issuance of such a regulation by the Board; that there were problems which were difficult of solution in connection with the regulation of the use of bank credit; that the matter had been under consideration by the Board for some time; and that it was contemplated that whenever the regulation is issued it will be as simple, clear and liberal as it is possible to make it in view of the purposes sought to be accomplished by the regulation.

Mr. Brown stated that collateral loans by banks in his district had steadily decreased and that there was a movement of collateral loans from banks to brokers because of a lower interest rate, and he expressed the opinion that, because of the additional work which would be involved and the objections which would be raised by customers of banks to furnishing the information necessary to enable the banks to comply with the requirements of the regulation, it was desirable that the Board defer issuing the regulation until there was evidence of an increase of some volume in the amount of collateral loans by banks.

Chairman Eccles inquired whether, if such a position were taken, a similar position logically could not be taken in connection with the question of reducing excess reserves of member banks, on the ground that there is no evidence at the present time of the speculative use of bank credit.

Mr. Frost stated that he could not agree to this; that in his opinion the imminence of the dangers resulting from the existence of excess reserves justified doing something now to reduce them.

Mr. Brown stated that, in his opinion, a situation might not arise for several years that would require the issuance by the Board of a regulation covering the extension and maintenance of credit by banks for the purchasing or carrying of securities, whereas there was a possibility that excess reserves, if not reduced in some manner, might result in difficulties within the next six months or a year through the undue extension of credit by banks on the basis of such excess reserves.

Mr. Szymczak inquired of Mr. Brown what harm might result from issuing the regulation at the present time and Mr. Brown replied that compliance with the regulation would involve the obtaining by banks from their customers of statements of the purposes for which the proceeds of loans were to be used; that the public would not like the application of additional rules and inquiries into their business or what might appear to be regimentation of their affairs, particularly, at a time when business is going ahead, and that he felt that it would be a mistake to put that additional responsibility on the banks. He pointed out also that a question might arise as to the collectibility of a loan where the requirements of the regulation were unintentionally not complied with in making the loan. He added that it might be necessary, if evidence should appear that bank credit was being used for the purchasing or carrying of securities, or to prevent injury or injustice to brokers in favor of banks, to issue a regulation which would put banks and brokers on an equal basis, but that he was convinced that there would be no need for such a regulation for a couple of years, whereas he felt that there would be difficulty in the future unless the problem of excess reserves were dealt with now. He also stated that he felt the pressure for the issuance of a regulation covering loans by banks for the purpose of purchasing and carrying securities had come from the authors of the Securities Exchange Act of 1934 and from brokers who desire to develop antagonism to the act.

Mr. Frost stated that he objected to the statement that the problem of reducing excess reserves of member banks and the question of the issuance of a regulation covering loans by banks for the purpose of purchasing or carrying securities were analogous, and that he felt that they were two separate and independent problems.

Mr. Perkins stated that he felt it should be made clear that in making loans to commercial customers under the proposed regulation, on the security of a portfolio which might include a registered stock, the bank would not be under the necessity of cross-examining the customer as to the purpose for which the proceeds of the loan would be used. He also said that he understood that the problem was being considered by Mr. Parry.

In this connection, Mr. Parry stated that the matter of accomplishing the purpose of the regulation without interfering with the usual relations of banks and their regular customers has been the principal point in the minds of those working on the regulation and that he felt the Board would do everything within its power, consistent with the purposes sought to be accomplished by the regulation, to avoid restrictions on commercial borrowing or impairment of the rights of banks against borrowers from the banks.

Mr. Thomas inquired as to whether the members of the Council saw any objection to the drafting of a regulation which could be considered and placed in final form preparatory to its issuance by the Board, and it was stated that, with the understanding that the Council felt that there was no reason for making the regulation effective at the present time, it was agreed that the preparation of the regulation was desirable.

Chairman Eccles pointed out that because of the relatively small amount of collateral loans being made by banks at the present time the present might be an opportune time to test the regulation in the new field that it would cover, whereas if it were issued during a period of increased activity difficulty might result.

Mr. Miller inquired whether the members of the Council saw anything in the present situation in the stock market which should give the Board concern.

Mr. Perkins stated that, in his opinion, the activity in the stock market was due (1) to the low bond yields resulting in a shift by investors from bonds to corporate stocks of corporations which for the first time during the depression had substantial earning prospects, and (2) a large investment in stocks by foreign investors. Mr. Brown expressed agreement with Mr. Perkins' statement, and said that corporations in the Chicago district are beginning to show substantial earnings for the first time in four or five years and the business and investing community are fairly well convinced that business is on the upturn. He added that the amount of stock buying caused by inflation fears was considerably less than a year ago.

Mr. Miller inquired whether the other members of the Council were in agreement with the opinions expressed by Messrs. Perkins and Brown and Mr. Frost stated that inquiries are constantly being made of him as to the advisability of converting investments into common stocks in order to protect against inflation. Mr. Smith stated that his experience in St. Louis was similar to that of Mr. Frost. Messrs. Steele and Loeb were of the opinion that the fear of inflation was less than it was six months or a year ago.

Chairman Eccles expressed the opinion that so long as money rates continue low and ample funds are available for the capital and mortgage markets, there need be little concern over the question whether stocks are purchased because of fear or because of confidence in the business situation, but that if it should appear that funds were being absorbed in equities and real estate to such an extent as to make funds unavailable in the capital and mortgage markets except at undesirably high rates there would be real cause for concern.

Mr. Szymczak inquired of Mr. Braun what his opinion was in connection with the matter under discussion and Mr. Braun stated that he felt the impression still existed to some extent that there was something tending toward inflation, although he knew from his own experience that investments made in common stocks by organizations which formerly confined their investments to bonds were because of the decreased yield on high grade bonds and the prospect of more profitable operation of the corporations the stock of which was being bought.

Mr. Lichtenstein then read a recommendation adopted by the Federal Advisory Council at its separate meeting, as follows:

> "The Federal Advisory Council, in view of the fact that it has been advised by the Chairman of the Board of Governors of the Federal Reserve System that the Board does not have the authority to initiate open market operations, requests the Board to submit the following recommendation to the Open Market Committee and to call for that purpose a special meeting of said Committee at an early date.
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> "The Federal Advisory Council of the Federal Reserve System has received the communication of the Board of Governors of the System, wherein reference is made to the statement of the Council made to the Board at its meeting of September 24, 1935, concerning the amount of Government securities held by the System, which has not varied for a long time, and calling the attention of the Board to the basic theory of open market operations: that there should at all times prevail sufficient flexibility to prevent undue expansion and contraction in the credit structure of the country. The Council enquired whether the Board agreed with the principle enunciated.
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> "The present communication of the Board recognizes 'the necessity for the consideration of the factors referred to in the statement as elements in the determination of open market policy' and closes with the statement that 'if the Council has any proposals to make with respect to the operation of the open market account of the Federal Reserve System, which it believes to be pertinent in the existing situation, all factors considered, the Board will, as in the past, be glad to receive them and consider them'.
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> "The Council is fully cognizant of and thoroughly appreciates the importance and significance of the obligation imposed upon it by law 'to confer directly with the Federal Reserve Board' and 'to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, <u>open market operations by said banks</u>, and the general affairs of

"'the reserve banking System', and it has given its most careful and earnest consideration to the suggestion by the Board that it will be glad to receive from the Council such proposals as it may make with respect to the open market account of the System.

"As a result of this consideration the Council desires to call the attention of the Board to the fact that, since the discontinuance, more than two years ago, of open market purchases by the System, excess reserves of member banks held by the System have now reached the unprecedented total of more than three billion dollars, which may well be considered as a base upon which additional bank credit can be extended to the extent of at least thirty billion dollars with a corresponding increase of bank deposit liabilities.

"The Council believes that there have now been some considerable evidences of recovery in business, of an increase in prices generally, and particularly in the security markets of the country, with the possibility, at least, that a too rapid advance of security prices could easily develop into a new wave of speculation such as preceded the market collapse of 1929. The constant pressure of the very large excess reserves of the member banks creating a plethora of the available supply of bank credit has a very distinct tendency to foster and encourage speculative activity, increase prices, and raise the living cost of the population. The Council believes that, even with the practically complete elimination of excess reserves, the banking system of the country would still be prepared and ardently desirous of meeting any and all legitimate and proper demands for bank credit, and it is strongly of the opinion that, in order to obviate the probability of an undue and dangerous credit inflation, it is desirable from every point of view to eliminate or at least greatly reduce the excess reserves now being carried in the System.

"Since the enactment of the Banking Act of 1935, there exist two methods by which this can be accomplished. 1. The selling or 'permitting to run off' of a portion or all of the System holdings of Government securities. 2. Raising of reserve requirements.

"The Council has most earnestly considered the question as to which of these two methods might be the more desirable under the present circumstances and has determined to recommend as strongly as possible the first method.

"The controlling reason for this is the indisputable fact that so long as Government bonds are held under the ownership of the System, either the currency of the country "or the reserves of member banks, to a corresponding extent, are dependent entirely upon a Government obligation. The world history of currency and banking has demonstrated the dangers inherent in such a system or policy too many times to make it necessary for them to be elaborated upon in this communication.

"There is, however, another reason for preferring the first method, namely, the ease and flexibility with which it may be administered. Under that method, Government security holdings may be permitted to run off or may be sold, rapidly or gradually, as in the judgment of the Open Market Committee, may seem to be feasible or advisable. If at any time, the effects seem to be too severe, it is possible to suspend or even temporarily to reverse the policy.

"Under the second method, namely, increase of reserve requirements, rigidity is substituted for flexibility, since it must be entirely apparent to any one that frequent changes in reserve requirements would create a chaotic condition in planning for the future by member bank management.

"Finally, the Council wishes to make perfectly clear to the Board that, after Government security holdings of the System have been eliminated or greatly reduced, and if, then, further curbs upon speculation should seem to be desirable, there would certainly be no possible objection to an increase in reserve requirements. On the contrary, it would become the clear and plain duty of the Board fearlessly and promptly to take such action."

Upon inquiry from Chairman Eccles, Mr. Smith stated that the recommendation expressed the unanimous opinion of the Council.

Mr. Miller inquired whether the Council proposed that the System should sell securities to curb speculation and Mr. Smith replied that it was rather for the purpose of removing the temptation to speculate. Mr. Frost stated that the recommendation was not made as being a corrective measure, but because it was felt that the System was faced with the possibility of speculative expansion. Mr. Miller said that, in his opinion, the country was still faced with the problem of economic recovery rather than speculative expansion. Mr. Frost stated that Government obligations were the basis of approximately $2,500,000,000 of the excess reserves of member banks which could be used as a base for the extension of credit of ten to fifteen times that amount, and that the existence of large amounts of excess funds had put pressure on the banks to keep their funds profitably employed, in order to permit the payment of dividends to shareholders, to a point where the banks were willing to make loans which they formerly did not feel were safe to make.

Mr. Miller inquired whether other members of the Council subscribed to that position, and some of the members indicated that they were not entirely in agreement with Mr. Frost's statement. Mr. Perkins referred to the increase in excess reserves of member banks and inquired whether it was felt that if excess reserves mounted to four or five billion dollars it would aid recovery. Mr. Miller replied in the negative, but stated that a movement to counteract an increase in reserves at this time might have a chilling effect carrying with it a possibility of danger; that, while the Federal Reserve System would have to take action in that direction at the proper time, he felt the important question at this time was whether the recovery movement had reached that point; but that it had been suggested as a reason for immediate action that if the System did not act now it might not act when the time arrived when action should be taken.

Mr. Frost stated that his reason for suggesting that action be taken at this time was that it would enable the reduction or elimination of the Government security holdings, upon which a portion of the excess reserves were based, without resulting in pressure on any member bank to rediscount at the Federal reserve bank, whereas if action were not taken until the excess reserves were used as a basis for bank credit the sale of Government bonds would be made possible only by a corresponding amount of rediscounts by member banks or curtailment of loans of member banks and that, in his opinion, the time to take action was while the large excess reserves were not being used.

Mr. Miller raised a question as to the effect of a reduction of five hundred million or a billion dollars in the System account within a period up to four months and Mr. Frost inquired if the results would not be more unsatisfactory if action were not taken until a time when bank credit had been built up on existing excess reserves. This point was discussed and Mr. Loeb stated that in the past, when Government securities were purchased by the System to offset the outflow of gold, it had been stated that when the gold movement was reversed securities would be disposed of as a matter of normal procedure, but that such action had not occurred. Mr. Miller answered that the conditions under which the System is operating must be taken into account and that the policy followed must be governed by the existing situation. He stated that he felt there would be a considerable hazard at the present time in the liquidation of a portion of the holdings in the System account and that the question would naturally arise as to the purpose of the System in apparently reversing its policy at this time. Mr. Loeb stated that the answer in such a situation would be that a reduction in the holdings of securities was a normal operation.

Mr. Miller expressed the opinion that the country was still faced with the problem of recovery; and that the sale of between five hundred million and one billion dollars of securities within a period of four and five months would be extremely unwise.

Mr. Perkins stated that he would not have voted for the recommendation had he felt that there was any danger of stopping the trend of recovery; that he had discussed the matter with banks in New York who felt that cautious action could be taken; and that he had voted for the recommendation for the reason that he felt that if the System account were gradually reduced it would not upset the recovery psychology, whereas if the situation were allowed to reach a point where the excess reserves began to be used as a basis for bank credit it might be difficult to reverse the movement.

Chairman Eccles, after referring to the difference in viewpoint of the Council and the Board by reason of the fact that the former acts in an advisory capacity, while the Board has the responsibility for action, pointed out that a reduction of from five hundred million to a billion dollars in the System account might substantially stiffen interest rates, and that, if such action were taken when attempts are being made to stimulate recovery, the Board would have great difficulty in formulating satisfactory reasons for such action. He stated that he did not wish to convey the impression that the Board should defer action in order to keep interest rates down but that its policy should be one of encouraging the use of credit for a furtherance of recovery.

Mr. Perkins stated that he had not voted for the recommendation for the purpose of increasing money rates and that he felt that such was not the purpose of the Council in submitting the recommendation. Chairman Eccles stated that he had discussed this matter with a number of bankers, including some of the members of the Federal Advisory Council, who felt that interest rates should be increased and that the banks could not continue to operate on the basis of present rates. It was indicated by a number of the members of the Federal Advisory Council that such a consideration had not entered into their action on the recommendation.

Chairman Eccles stated that, if the System should take action which would affect adversely the Government bond market, it would react not only against the Federal Reserve System but the whole banking structure. He pointed out the additional fact that the Federal reserve banks are dependent at the present time for earnings upon their holdings of Government securities, and stated that if the securities were disposed of the banks might reach the point where it would be necessary to suspend dividends to stockholders and to ask Congress for appropriations to meet operating expenses, and that if this should occur it would affect the independence of the Federal Reserve System.

Mr. Wold stated that the Federal reserve banks previously had operated for a period of approximately two years without profits, and

Chairman Eccles replied that there was very little prospect in the near future of any material increase of rediscounts for member banks or in Federal reserve banks' holdings of acceptances, so that undoubtedly there would be a long period of time before the banks could depend on earnings being sufficient from any source other than their holdings of Government securities.

Mr. Frost inquired whether the earning position of the Federal reserve banks should be permitted to enter into the determination of open market policy, and Chairman Eccles stated that, while it should not be a determining factor in open market policy, it would be proper to consider it in reaching a conclusion as to whether a policy of reducing excess reserves should be made effective by a change in reserve requirements or by a change in the System's holdings of Government securities.

Mr. Miller pointed out that the recommendation of the Federal Advisory Council showed a very distinct preference for meeting the situation by a reduction in the System's holdings of Government securities, and stated that he had reached the conclusion that the method to be used at the proper time was an increase in reserve requirements, and that, in this connection, consideration should be given by the Board to requesting such further authority from Congress as would enable the Board to deal effectively with any situation that might arise.

Mr. Arnold stated that excess reserves were largely the result of gold imports and were held largely by banks in New York and Chicago and that, if reserve requirements were increased, it would work to the disadvantage of thousands of small banks that have no excess reserves. Chairman Eccles stated that the study made by the Board of the reserve position of member banks showed just the opposite, viz., that excess reserves were proportionately higher in the country banks than in the reserve city and central reserve city banks.

Mr. Frost suggested that if reserve requirements were increased no change would be made in the amount of existing reserves, but that if a reduction were made in the securities held in the System account reserves of member banks would be reduced and the elimination of government bonds would add to the purity of the System's reserves. Mr. Miller stated that, apart from the method to be used, the alternative was not one of acting now or waiting until the situation is entirely out of hand; that the real question was when should action be taken; that the System would be tested by the accuracy of its judgment on this point; and that the Board's record must show that it was not afraid to wait when waiting did no harm but might be a constructive factor; and that it was not afraid to act when it appeared that action was the proper course.

Chairman Eccles stated that he had met with the Council yesterday and had pointed out that any recommendation of a reduction in the System's holdings of Government securities would be one primarily for the consideration of the Federal Open Market Committee, that the Federal Open Market Committee had given very careful consideration to the problem, and it had come to the conclusion that the System portfolio should not be reduced. Mr. Loeb inquired whether the Committee had taken any affirmative action, and Chairman Eccles replied that it had called attention to the large amount of excess reserves, and had expressed the feeling that the present was not the proper time to decrease the System's holdings of Government securities, but that it might be desirable for the Board to give consideration to an increase in reserve requirements.

Mr. Smith stated that, while it was understood that only 46 banks would not have sufficient available reserves and deposits with other banks to meet a 25% increase in reserve requirements, he felt that most of the banks whose reserves were close to the increased requirements would stop making loans and would raise the question whether or not further increases in reserve requirements were to be expected. Chairman Eccles suggested that it might be better for reserve requirements to be increased at this time than to wait until a large number of banks had used their excess reserves as a basis for the extension of bank credit, and when it might be necessary, in order to apply the necessary curb, to increase reserve requirements as much as 50%.

At Chairman Eccles' request, Mr. Goldenweiser made a brief statement.

Referring to the alleged "defilement" of the Federal reserve banks through the holdings of Government securities, he pointed out that the Federal reserve banks have liabilities of $6,100,000,000 on deposits and $3,600,000,000 on Federal reserve notes, aggregating $9,700,000,000, against which they have $7,500,000,000 of gold certificates and $2,400,000,000 of Government securities -- a ratio of reserve to note and deposit liabilities of 77 percent -- indicating that the reserve banks have an ample metallic reserve back of Federal reserve currency and member bank reserve deposits. He also said that it was not unusual for central banks to have a large portfolio of government securities, since, for example, the Bank of England has 90 percent of its earning assets in governments.

He also said that it was incorrect to speak of the Federal reserve banks "investing" reserves of the member banks in Government securities, the fact being that these reserves were created in part by the Federal reserve banks buying Government securities and in part by gold imports, the proceeds of which have remained uninvested.

He said further that it might be logical to meet the abnormal reserve situation arising from the large imports of gold through raising reserve requirements, and to reserve open-market operations for use at a time when the System's policy of easy money might have to be definitely reversed. He pointed out that the present reserve requirements of 3, 7, 10 and 13 percent were established when the banking system had much smaller reserves, and that action in raising reserve requirements could be viewed in the light of a readjustment to the System's changed reserve position.

Mr. Miller pointed out that there was a distinction between inflationary currency and credit and redundant currency and credit, and stated that at this point in the recovery movement the former had not appeared as a condition requiring action by the Board, although the Board should be constantly on the alert to determine the time when action should be taken.

Chairman Eccles stated that the Board has considered increasing reserve requirements, not as a means of reversing general open market policy, but as a means of sterilizing gold imports on the theory that the gold movement was an abnormal situation and, as the movement may be reversed at any time, imported gold should not be used as a portion of the credit structure.

Reference was then made to the action taken by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1935, and Chairman Eccles read the first five paragraphs of the draft of a letter to the Chairman of the Federal Open Market Committee which had been prepared in accordance with the action taken at the meeting of the Board yesterday.

Mr. Smith stated that several newspaper men had approached him for a statement of the matters under consideration by the Federal Advisory Council and that he had advised them that any statement on the subject would be given out by the Chairman of the Board of Governors of the Federal Reserve System. There was a discussion as to whether the recommendations of the Federal Advisory Council should be released to the press, and Chairman Eccles stated that he felt that, while there was no objection to informing the press of the topics which were considered by the Council, if the recommendations of the Council were to be released, publication should be deferred until the Board had had an opportunity to consider them and determine what action it would take in connection therewith. Mr. Young suggested that the recommendation with regard to open market operations should not be released until submitted to the Federal Open Market Committee. Mr. Smith stated that the Council would give the matter further consideration and advise the Board today of its wishes in the matter.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.