

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, December 26, 1935, at 11:35 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Szymczak
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Paulger, Chief of the Division of Examinations

There was presented a letter dated December 16, 1935, from Senator Carter Glass, reading as follows:

"Thank you for taking the trouble to send me the additional printed regulations of the Board of Governors of the Federal Reserve System, which I hope to get time to examine before the convening of Congress. However, as stated to you some days ago over the 'phone, if the regulations other than those affecting the payment of interest on deposits are as completely in defiance of the plain purpose of Congress as the deposits regulations, I would think Congress would desire to take very definite action on the subject.

"Few things in connection with the Banking Act of 1935 were more thoroughly discussed than the provision relating to the payment of interest on time and savings deposits. The fact that the Banking Act of 1933 governing this matter was so altered as to eliminate the authorization to fix a general maximum rate; to change the word 'may' to 'shall;' and, especially, to insert the requirement with respect to having interest payments vary according to discount rates, would indicate to anybody, not actually stupid, that the Congress intended that interest payments on time and savings deposits should be differentiated and not made uniform. Had it been intended to confine the action of the Board to the least important of all the requirements, such as that of maturity, there would have been no necessity of altering the Act of 1933. In fact, the alterations which I have

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"pointed out would have been senseless. I decline to think that the Board of Governors could have supposed anything else; hence, I feel convinced that its action and the advice of its attorney were in deliberate disregard of the action of Congress. This is not alone my opinion, but that of other members of the Senate committee, the nature, if not the measure, of whose resentment is quite comparable to my own."

There followed a detailed discussion of the letter and the considerations which prompted the Board in prescribing the maximum rates of interest on time and savings deposits contained in the supplement to Regulation "Q" approved by the Board effective as of January 1, 1936, and suggestions were made as to the nature of the reply that the Board should make to the letter.

Messrs. Morrill and Wyatt were requested to prepare, for the consideration of the Board, a draft of a reply to the letter from Senator Glass.

Chairman Eccles then presented a letter dated December 14, 1935, from Governor Harrison of the Federal Reserve Bank of New York inclosing a copy of a letter dated November 29, 1935, from Mr. Hjalmar Schacht, President of the German Reichsbank, in which he advised that Mr. Puhl, a director of the Reichsbank who directs all transactions in foreign exchange at the bank and deals with questions connected with the control of foreign exchange, the stand-still agreement, etc., intends to make an unofficial trip to the United States in January for the purpose of obtaining all the information available concerning questions of currency, money, and economic conditions prevailing in the United States and to give such information as might be asked for about similar problems in Germany, and

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requested that Governor Harrison give Mr. Puhl the necessary assistance in this connection. There was also inclosed with Governor Harrison's letter a copy of a reply to the letter from Mr. Schacht which stated that the New York bank would be glad to give Mr. Puhl whatever assistance it could during his visit and that it would be personally gratifying to Governor Harrison to receive a visit from a member of the board of directors of the bank. During the ensuing discussion there was read the letter addressed by the Board under date of November 9, 1935, to Governor Harrison with regard to the visit to the United States of Mr. Catterns of the Bank of England.

Upon motion by Mr. Hamlin, it was unanimously voted that the Secretary be requested to prepare for consideration a letter to Governor Harrison acknowledging receipt of his letter; advising that the Board has no objection to the reply made by him to the letter from Mr. Schacht; and requesting that he advise Mr. Puhl that if he should come to Washington during his visit the members of the Board would be pleased to see him.

The Chairman called attention to a letter addressed to him under date of December 16, 1935, by the Chairman of the Federal Reserve Bank of Chicago in which was quoted a resolution adopted by the St. Louis Clearing House Association recommending to the Federal Reserve Banks of Chicago and St. Louis that they select as their representative on the Federal Open Market Committee after March 1, 1936, a man of wide experience in business and financial affairs who is not an officer of either bank. It was stated

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that copies of the resolution had been left with the Board by Governors Schaller and Martin while they were in Washington recently in connection with the meeting of the Federal Open Market Committee.

Mr. Szymczak stated that during his recent trip he had discussed with the governors of some of the Federal reserve banks the questions which had arisen as to the procedure to be followed in connection with the selection of the banks' representatives on the Federal Open Market Committee.

Chairman Eccles stated that he felt that it would not be advisable to have on the Committee as representatives of the Federal reserve banks individuals who were not officially connected with the banks; that the banks' appointees should be representative of the public interest rather than private interests; and that officials of the Federal reserve banks would be more likely to have a better conception of the problems of the Federal Open Market Committee and a broader viewpoint with regard thereto. He raised the question whether there would be any objection to the Board sending a letter to the Federal reserve banks advising that, while it had no authority in the matter, it felt that the representatives selected by the banks should be officially connected with one of the Federal reserve banks by which they are selected.

Mr. Thomas suggested that it might be advisable for the Board not to volunteer its opinion unless requested by one or more of the Federal reserve banks. Mr. O'Connor agreed with this suggestion.

Mr. Miller raised the question as to whether a person not

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officially connected with the Federal reserve banks would be truly representative of the Federal reserve banks by which he would be selected.

Mr. Miller moved that there be prepared for the consideration of the Board a draft of a letter to Mr. Stevens, with a copy to the Chairman of the Federal Reserve Bank of St. Louis, expressing the opinion of the Board that the banks' representative on the Federal Open Market Committee should be officially connected with one of the banks by which he will be selected.

Carried unanimously.

There was then presented a memorandum dated December 17, 1935, from Mr. James, as the Committee on Salaries and Expenditures, in which he stated that the Committee had reviewed the informal recommendations, submitted by Mr. Simpson on behalf of the directors of the Federal Reserve Bank of Chicago, with regard to changes in salaries of officers at the bank for the coming year, and that the Committee found no reason to disagree with the recommendations and suggested that the directors be requested to transmit to the Board formal recommendations for approval.

Chairman Eccles stated that there was some question in his mind as to the increases recommended for the Controller and the Assistant Federal Reserve Agent, and, while these appeared to be meritorious cases, he felt that before these increases were approved the Board should have definite information as to the action that is to be taken in connection with other officers of the bank whose salaries were not justified.

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Mr. Szymczak stated that he understood that, while it was proposed to appoint Mr. Schaller as President of the bank, it would be with the understanding that he would resign at the end of six months. Mr. Miller stated that, when Mr. Simpson was in Washington recently, he and Chairman Eccles had discussed the situation with regard to Governor Schaller, and that Mr. Simpson had stated that it was proposed to appoint Mr. Schaller as President of the bank with the understanding that he would resign at a later date. Mr. Eccles said that he had advised Mr. Simpson that such an arrangement would be for the consideration of the new Board and that all the present Board could do, should it desire to do so, would be to leave a recommendation regarding the matter for the consideration of the new Board.

Mr. James suggested that the salary of the governor and senior deputy governors of the banks should not be approved beyond February 29, 1936, which action would be consistent with the Board's position in appointing chairmen and Federal reserve agents for the period ending with that date.

The Chairman suggested that he would like to defer action on the proposed increases for Mr. Snyder, Controller, and Mr. Young, Assistant Federal Reserve Agent, until it is determined what the division of duties will be between the Federal reserve agent's department and the operating department of the bank.

Mr. James stated that the salary recommendations referred to in his memorandum were submitted informally by the bank with the understanding

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that the Board would advise whether or not they are satisfactory, following which formal recommendations would be made, and that the bank was expecting some kind of a reply from the Board.

Mr. Szymczak suggested that the Board take no action on the recommendations at this time, and that the bank be advised accordingly.

There was some further discussion and Mr. Szymczak moved that the salary recommendations of the Chicago bank be held pending receipt of the recommendations from the other Federal reserve banks and determination of a policy by the Board with regard to all of the banks.

Mr. James stated that it was satisfactory to him to handle the matter as proposed by Mr. Szymczak.

Mr. Szymczak's motion was put by the chair and carried unanimously, with the understanding that Mr. Szymczak would advise the Chicago bank informally of the Board's action.

The Chairman then stated that it had been ascertained early this week that the Federal Deposit Insurance Corporation had approved, but had not issued, a regulation with regard to the payment of interest on deposits by insured nonmember banks, which did not prohibit such banks from absorbing exchange or collection charges as an indirect payment of interest on deposits. He said that upon receipt of this advice he had called Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, on the telephone and had addressed a letter to him in which the suggestion was made that the Corporation's regulation be not issued until an opportunity had been given to discuss it in the light of

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the Board's Regulation "Q" with regard to the payment of interest on deposits. Chairman Eccles added that he had advised Mr. Crowley over the telephone that he felt the issuance of the regulation in the form proposed would give nonmember banks a substantial competitive advantage over member banks, that no part of the Board's regulation had been given more careful consideration than the provision with regard to the absorption of exchange or collection charges, that it was felt that the Corporation had authority to prescribe regulations prohibiting the absorption of exchange or collection charges by nonmember banks as an indirect payment of interest, and that if a regulation containing such a prohibition were not issued by the Corporation the Board would be faced with the necessity of amending its regulation to meet the situation. Mr. Eccles stated further Mr. Crowley had advised him that the regulation would not be issued until he had had an opportunity to go into the matter further.

There followed a discussion of the authority of the Federal Deposit Insurance Corporation to issue a regulation prohibiting the absorption of exchange or collection charges by insured nonmember banks, and Mr. O'Connor stated that the matter had been gone into by the Corporation and the decision reached that, while the Board's authority under the law would permit it to issue such a regulation, it was the definite opinion of counsel for the Federal Deposit Insurance Corporation that the Corporation had no such authority. He added that the situation was of

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particular concern to him as Comptroller of the Currency because it was resulting in national banks surrendering their charters and organizing as insured nonmember banks.

Mr. Morrill pointed out that if only direct payments of interest were prohibited and indirect payments through the absorption of exchange and collection charges were allowed, the regulation and the law upon which it was based would be nullified.

There was also a discussion of the reasons underlying the provisions of the Federal Reserve Act limiting the payment of interest on deposits, which concluded with a statement by the Chairman that if the Federal Deposit Insurance Corporation did not issue a regulation which conformed substantially with the regulation issued by the Board, he believed the Board should amend its regulation or, if necessary, request Congress to amend the law in such manner as would insure uniform limitations on the payment of interest by member banks and insured nonmember banks. He added that he would discuss the matter further with Mr. Crowley when the latter returned to Washington.

Messrs. O'Connor and Paulger withdrew from the meeting at this point and the Board acted upon the following matters:

Letter to the board of directors of the "Bank of Sheboygan", Sheboygan, Wisconsin, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved unanimously, together with
a letter to Mr. Stevens, Federal Reserve

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Agent at the Federal Reserve Bank
of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Sheboygan', Sheboygan, Wisconsin, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Wisconsin for his information.

"The Board also approves the application of the Bank of Sheboygan for permission, after admission to membership, to operate the branch at Haven, Wisconsin. Inclosed is a letter approving such application which you are requested to forward to the board of directors of the institution. A copy of the letter is also inclosed for your files.

"The report of examination as of October 21, 1935, indicates that the bank is carrying a substantial amount of other real estate in loans and discounts and it is requested that you advise the bank that it should transfer to its 'Other Real Estate' account all assets which should properly be carried in that account. The report indicates also that the bank carries at \$20,000 in the account 'Banking House', store buildings no part of which appears to be occupied by the bank. It appears that such property should be carried as Other Real Estate, and, if such be the case, it is requested that you advise the bank that the property should be transferred to that account.

"It has been noted that the president of the bank believes that the 133 shares of its own stock which were acquired in connection with debts previously contracted and which are at present carried as a nonbook asset can be disposed of in the near future, and it is assumed that you will satisfy yourself that this is done."

Telegram to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Refer Young's letter December 21, 1935, Board extends to February 1, 1936, the time within which 'Citizens Trust and Savings Bank of South Bend, Indiana', may accomplish its membership in the System. Please advise the bank accordingly."

Approved unanimously.

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Letter to Mr. Moore, Deputy Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System has received your letter of December 12, 1935, requesting a copy of that part of the recent hearing on the pending application of Transamerica Corporation for a general voting permit which contains references to any director or officer of the Federal Reserve Bank of San Francisco. The Board is pleased to forward with this letter, for the confidential information of the directors and senior officers of your bank, a copy of the complete transcript of the hearing."

Approved unanimously.

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

"In order that the information furnished to the Board with respect to indebtedness incurred by officers and employees in the Federal Reserve Agent's departments may be prepared on a uniform basis by all Federal Reserve Agents, it is requested that in the future reports be submitted on Form B-208, a supply of which is being forwarded to you under separate cover. A specimen copy of Form B-208 illustrating the manner in which the report should be prepared is attached for your information. Please include with your report a statement indicating whether in your opinion any cases require special attention, and if so, the action taken or proposed to be taken in each case.

"As it is desirable that the information in regard to outside business affiliations of officers and employees of the Federal Reserve Bank, including the Federal Reserve Agent's department, requested in the Board's letter X-7425 of April 29, 1933, be received by the Board at stated intervals, it is requested that you report thereon at the same time that statements are furnished on indebtedness of officers and employees in your department.

"At the Governors' conference held in Washington on October 23, 1935, it was brought out that at a number of the Federal Reserve Banks at least it is the practice to prepare data on the indebtedness of officers and employees of the bank annually and the Governors recommended that the reports covering indebtedness of officers and employees in

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"the Federal Reserve Agent's department be also prepared and submitted annually instead of semi-annually as at present. The Board concurs in the Governors' recommendation, and requests that such reports be submitted as of July 1 of each year in time to reach the Board not later than September 15."

Approved unanimously.

Memorandum dated December 13, 1935, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, in order that the weekly member bank condition report (Form B-21) may continue to conform to the call report form, the former be revised in accordance with the copy submitted with the memorandum. The memorandum outlined the proposed changes and stated that, if the revised form of weekly report were adopted, no changes in the form of the weekly member bank press statement would be necessary, other than to change the caption "Due from domestic banks" to "Balances with domestic banks".

Approved unanimously, together with a letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In view of the revision of the Board's Regulation D, Reserves of Member Banks, effective January 1, 1936, and of the fact that the deposit schedules in the forms to be used by member banks on the next call for condition reports will conform to the new regulation, the weekly member bank condition report form (B-21) has been revised and a copy of the revised form is inclosed, together with a copy of Schedules I, J, and K of the form to be used on the next call for condition reports of member banks. The changes in Form B-21 are largely in the classification of deposits, which, in so far as inter-bank balances are concerned, is somewhat simpler than the present classification. As a result the number of items to be reported by member banks has been reduced by four.

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"It is requested that reports be submitted on the new form beginning with Wednesday, January 8, 1936. In view of the fact, however, that the forms for the next call report will not be distributed to member banks until around the end of the year, and, in order that the weekly reports may be rendered on the present form by all reporting banks up to and including the last report date of the present year, it is suggested that a supply of revised form B-21 be not distributed before January 2, 1936.

"It will be appreciated if you will ask each reporting member bank to advise you, when it submits its first report on the new form, what part of the amount shown in its report for December 31, 1935 as 'Due from banks and trust companies in the United States' (Item G of the present Form B-21) represented demand and time balances on deposit with private banks and American branches of foreign banks and time balances on deposit with other banks in the United States. Please indicate in your telegraphic and mail reports to the Board the total amount of such balances included in item G of the reports rendered as of December 31, 1935."

Memorandum dated December 24, 1935, from Mr. Vest, Assistant General Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin a statement, in the form attached to the memorandum, with respect to the Board's recent ruling on the question whether the distribution of coin banks by member banks of the Federal Reserve System to their depositors for the purpose of encouraging the accumulation of savings is to be considered a payment of interest.

Approved unanimously.

Telegram addressed to Governors Schaller and McKinney of the Federal Reserve Banks of Chicago and Dallas, respectively, reading as follows:

"Available information indicates that weekly reserve

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"computation periods for reserve city banks end on Friday in all but three Federal Reserve districts, and in one of those the Reserve bank has recommended a change to Friday. In the circumstances please advise whether your bank would be agreeable to a change in the weekly reserve computation period in your district so that it would end on Friday. All semi-weekly periods now end on Tuesdays and Fridays."

Approved unanimously.

Letter to Mr. W. A. Van Duzer, Director of Vehicles and Traffic, District of Columbia, reading as follows:

"Reference is made to the letter of the Board of Governors of the Federal Reserve System dated December 11, 1935, and your reply of December 16, 1935, regarding the Board's request for an order prohibiting parking on the west side of 20th Street and the east side of 21st Street between Constitution Avenue and C Street, and on the north side of Constitution Avenue and on the south side of C Street between 20th and 21st Streets after January 1, 1936. This request was the subject of a conversation between yourself and a representative of the Board on December 19, 1935. As a result of that conversation, it is understood that your office proposes to prohibit parking in the places above described during the progress of the demolition of the existing building located between those streets and the construction of the Board's new building; and it will be appreciated if you will confirm this understanding by letter.

"It is proposed to begin the demolition of the western half of the existing building on January 2, 1936. The eastern half of the building will still be occupied at that time, and the demolition of that portion of the building will not begin until January 15, 1936. Accordingly, it is believed that from January 2 to January 14, inclusive, the order prohibiting parking need be applicable only to the east side of 21st Street between Constitution Avenue and C Street, and the western half of the south side of C Street between 20th and 21st Streets; and that the order need not be made applicable to the remaining places described in the first paragraph of this letter until January 15, 1936.

"It is understood that upon the completion of the Board's new building, consideration will be given to the adoption of a permanent regulation of the kind requested in the Board's

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"letter of December 11, 1935."

Approved unanimously.

Thereupon the meeting adjourned.

Chester M. H. H.
Secretary.

Approved:

W. S. H.
Chairman.