

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 11, 1936, at 10:10 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Morrison

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel

Mr. Szymczak stated that it had been the practice of the Board in the past to publish in the Federal Reserve Bulletin as information of interest to member banks the regulations and amendments thereto issued by the Federal Deposit Insurance Corporation, but that Regulation III, on the subject of the official signs insured banks must display and the official advertising statement insured banks must include in advertisements relating to deposits, and Regulation IV, on the subject of the payment of interest on deposits by insured nonmember banks, had not been so published for the following reasons: (1) Regulation III provided for the use of the word "member" by insured banks in such a manner as would result in confusion in the minds of the public as to whether the term related to members of the Federal Reserve System or to banks, including nonmember banks, which had their deposits insured by the Federal Deposit Insurance Corporation, in connection with which

2/11/36

-2-

the members of the Board of Governors of the Federal Reserve System had taken the position that the term "insured bank" should be used instead of the term "member" to designate a bank which has its deposits insured, as distinguished from a member of the Federal Reserve System, and (2) Regulation IV contained a definition of "interest" which did not prohibit the absorption by insured nonmember banks of exchange and collection charges as indirect payments of interest, whereas such a prohibition was contained in the definition of the term "interest" as contained in the Board's Regulation "Q", relating to the payment of interest by member banks.

Mr. Szymczak added that it was the policy of the Board to include in the Federal Reserve Bulletin all official matters such as regulations, etc., which were of direct interest to the Federal reserve banks and member banks of the Federal Reserve System, and that he desired to recommend that the two regulations referred to be published in the March issue of the Bulletin. In this connection reference was made to the fact that at the meeting of the Board on January 30, 1936, it was agreed that the Chairman should take up with the Federal Deposit Insurance Corporation the question of the discontinuance of the use of the term "member" by the Corporation in referring to insured nonmember banks.

After a brief discussion, during which it was stated that many member banks throughout the United States relied upon the Federal Reserve Bulletin for official information of the character

2/11/36

-3-

referred to, Mr. Szymczak moved that the regulations be published.

Carried unanimously.

Chairman Eccles referred to the continued efforts of certain parties to effect the selection by Federal reserve banks as their representatives on the Federal Open Market Committee as constituted after March 1, 1936, of persons from outside the Federal reserve banks. He also referred to the previous consideration which had been given by the Board to this matter, and stated that he felt that, while there may be some question as to the Board's authority to prevent the selection of such persons, it should state its definite opposition to such selections as being contrary to the spirit and intent of the law which contemplated that the members of the Committee would be composed of individuals serving the Federal reserve banks who are charged with the public interest and not connected with or representative of private interests. He presented a memorandum on the subject which had been prepared by Mr. Dreibelbis, Assistant General Counsel, under date of February 11, 1936, which outlined the legislative history of the provision of Section 12A of the Federal Reserve Act that the Federal Open Market Committee shall consist of members of the Board of Governors of the Federal Reserve System and five representatives of the Federal reserve banks, and which showed clearly that the intention of Congress was that such representatives should be chosen from among the presidents of the Federal reserve banks and that at no time was the suggestion

2/11/36

-4-

made that Federal reserve bank representation should be by outside persons. The memorandum also set forth certain practical reasons why the representative members of the Committee should be executive officers of Federal reserve banks and not connected with or representative of outside interests.

There followed a discussion as to the action the Board might take, which indicated a consensus of the members present that, while the Board should take no action which could be regarded as an attempt to influence the selection of the particular representatives of the Federal reserve banks on the Federal Open Market Committee, it should make known to the directors of the Federal reserve banks its opposition to the selection of persons from outside of the Federal reserve banks.

Chairman Eccles stated that following the meeting of the Board on February 7, 1936, he had met with a committee of the board of directors of the Federal Reserve Bank of Minneapolis composed of Directors Clark and Grangaard, and had discussed with them the matter of the proposed selection by the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco of a representative from outside of one of the Federal reserve banks; that they had requested a statement from the Board as to its position in the matter; and that he had advised them that he would present their request to the Board. He then suggested that a letter be addressed to Mr. Clark, deputy chairman of the board of directors of the bank, in which it would be stated that, in compliance with the committee's request, the Board had authorized the

2/11/36

-5-

Chairman to send to Mr. Clark, for the information of the board of directors of the bank, a copy of the memorandum above referred to as setting forth the Board's views on the matter, and that a copy of the letter and accompanying memorandum be sent to the chairmen of the other Federal reserve banks for the information of the directors of the respective banks.


At the conclusion of the discussion, Mr. McKee moved that the memorandum be referred to the Chairman and Mr. Ransom for revision in accordance with suggestions made during the discussion, and that they be requested to prepare a draft of letter to the Deputy Chairman of the Federal Reserve Bank of Minneapolis along the lines suggested by Chairman Eccles.


Carried unanimously.

The Board then resumed its discussion of the policy that should be followed in acting upon the appointments made by the boards of directors of the Federal reserve banks of presidents of the banks to serve after March 1, 1936.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.