

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, February 11, 1936, at 3:30 p. 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. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Smead, Chief of the Division of Bank Operations
 Mr. Paulger, Chief of the Division of Examinations
 Mr. Parry, Chief of the Division of Security Loans

Messrs. Steele, Perkins, Loeb, Braun, Cohen, Young, Brown, Smith, Wold, Kemper, and Frost, Members of the Federal Advisory Council representing the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, and Eleventh Federal Reserve Districts
 Mr. Lichtenstein, Secretary of the Federal Advisory Council

Mr. Smith, President of the Federal Advisory Council, stated that the Council had held a separate session this morning and had not had sufficient time for deliberation to determine what recommendations it might desire to make to the Board, but that, as it was understood that three of the members of the Board would be out of town tomorrow, the Council had agreed to the suggestion that a meeting with the Board be held this

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afternoon, and that while the Council had nothing to discuss with the Board at this time, it would be glad to consider any matters which the Board might desire to present.

Chairman Eccles stated, for the information of the members of the Board of Governors, that he had met with the Council at luncheon today and, upon inquiry from Mr. Perkins as to the consideration which the Board was giving to the proposal that the representatives of the Federal reserve banks on the Federal Open Market Committee be selected from outside of the Federal reserve banks, had read to the Council the memorandum which had been prepared by Mr. Dreibelbis, Assistant General Counsel, under date of February 11, 1936, and had advised the Council that the Board proposed to send the memorandum to the boards of directors of all Federal reserve banks for their information, and that the members of the Council had indicated their agreement that such action was desirable. Chairman Eccles also stated that he had just conferred with Governor Harrison of the Federal Reserve Bank of New York, who had advised him that Senator Glass had learned of the proposal to have persons not connected with the Federal reserve banks serve as members of the Federal Open Market Committee and was very strongly opposed to the suggestion.

Chairman Eccles also stated that some of the members of the Council had expressed an interest in the consideration which was being given by the Board to Regulation "U" with regard to margin requirements on collateral loans by banks; that he had advised the Council that the

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Board had sent a draft of the regulation to the Federal reserve banks for the comments of the banks and other interested parties; that the reports had not all been received; and that the Board, therefore, was not prepared to discuss the regulation. He added, however, that the Board would be pleased to receive any comments regarding the proposed regulation that the Council may wish to submit.

Mr. Eccles then outlined the circumstances surrounding the action taken by the Board on December 28, 1935, and January 27, 1936, in deferring the effective date of subsection 1(f) of Regulation "Q", entitled "Interest", which prohibits the absorption by member banks of exchange and collection charges as indirect payments of interest. Members of the Federal Advisory Council indicated entire agreement with the position taken by the Board in the definition of "interest" as contained in Regulation "Q", and Mr. Smith stated that the Council would like to see the prohibition relating to the absorption of exchange and collection charges applied to all banks.

Mr. Brown referred to the position previously taken by the Federal Advisory Council that the issuance by the Board of a regulation relating to margin requirements for collateral loans by banks was not necessary and he stated that the Council was still of that opinion. In this connection, the Secretary of the Federal Advisory Council read the resolution adopted by the Council at its meeting on November 21, 1935 on this subject.

Several of the members of the Council stated that they had gone

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over the draft of Regulation "U" sent out by the Board to the Federal reserve banks for comment and criticism and that they felt that the regulation was entirely too complicated, and Mr. Perkins stated that, if a simplified regulation could be drawn up in terms of definite objectives, without attempting to prevent all possibilities of evasion of the provisions of the regulation, it would be very much more effective.

Mr. Parry stated that the Division of Security Loans had been studying the matter for a considerable period and would be pleased to receive any suggestions which would tend to clarify or simplify the regulation.

At the conclusion of the discussion of the draft of Regulation "U", the meeting adjourned.

Charles Howell
Secretary.

Approved:

W. Steeles
Chairman.