

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, March 4, 1936, at 11:00 a. m.

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

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. Smead, Chief of the Division of Bank Operations

Chairman Eccles presented a letter dated March 2, 1936, from Senator Burton K. Wheeler, Chairman of the Senate Committee on Interstate Commerce, referring to the action taken by the Board in August, 1935, in making available to the Committee the services of George H. Folsom, an assistant examiner in the Board's Division of Examinations, for a period of six months, and stating that as Mr. Folsom had been especially valuable by reason of his training, and as the Committee would have great difficulty in finding someone to take his place for the completion of the work on which he had been engaged, it requested that the Board extend the arrangement for a further period. Mr. Eccles stated that the reasons for the original arrangement still applied and that he would recommend that the arrangement be extended for an additional six months.

The Chairman was authorized to advise Senator Wheeler that the Board approved the extension of the arrangement for an additional six months from March 15, 1936, if necessary, it being understood that the salary of Mr. Folsom would continue to be

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paid by the Board during the time he is engaged in the investigation but that any traveling or other expenses incurred by him will be paid from funds available for the investigation.

Chairman Eccles stated that there appeared to be no necessity for the Board to make a statement with regard to the appointment of Presidents and First Vice Presidents at the Federal reserve banks as such information should properly be given out by the banks, but that he felt the Board should release a statement to the press in connection with the designation of Chairmen and Federal reserve agents at the banks to serve after March 1, 1936. He then read a draft of a statement which had been prepared at his request by Mr. Thurston.

The statement was discussed, and upon motion by Mr. Morrison, was approved unanimously.

There was then presented a draft of a letter to the Federal Reserve Agent at the Federal Reserve Bank of Dallas with respect to a letter received by him from Mr. W. S. Stevenson, Vice President of the Del Rio National Bank, Del Rio, Texas, protesting against the definition of the term "executive officer" as contained in the Board's Regulation "O". The draft of letter had been circulated among the members of the Board and Mr. Morrison had attached a memorandum to the file stating that he was not willing to agree to the definition of "executive officer" as contained in the regulation. Mr. Morrison stated that the reason for his position was that he felt that the inclusion in the definition of inactive or honorary officers was resulting in a distinct hardship to many small country banks by making it more difficult for them to obtain the services of outstanding

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individuals in the community and that he feared that the continued application of the prohibitions of section 22(g) of the Federal Reserve Act to such officers would result in many country banks being deprived of the support of the only outstanding individuals available in the community and in their replacement by men with inferior qualifications.

During the ensuing discussion, Chairman Eccles reviewed briefly the careful consideration which had been given to the definition of "executive officer" as finally incorporated in Regulation "O", and the reasons for its inclusion in the regulation in that form. At the conclusion of the discussion, it was understood that inasmuch as the subject of loans to executive officers of member banks had been assigned to Mr. Morrison, he should give the matter further consideration and submit to the Board such suggestions he might wish to make with regard thereto.

The letter to the Federal Reserve Agent at the Federal Reserve Bank of Dallas, referred to above, was unanimously approved as follows:

"This refers to your letter of January 7, 1936, transmitting a copy of a letter addressed to you by Mr. W. S. Stevenson, Vice President of the Del Rio National Bank, Del Rio, Texas, protesting against the definition of the term 'executive officer', as contained in the Board's Regulation O, with particular reference to the applicability of such definition to inactive officers.

"When the Board had under consideration the provisions which should be incorporated in Regulation O, it had before it a number of suggestions with reference to whether inactive officers should be included within the definition of the term 'executive officer' and the Board gave very careful consideration to this question. After the promulgation of Regulation O, the Board also received comments with regard to its definition of 'executive officer', and there are inclosed copies of the Board's letters of January 6, 1936 (X-9431) and January 31, 1936 (X-9478) explaining the views of the

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"Board in the matter. It will be appreciated if you will diplomatically explain the Board's views as set out in these letters to the Del Rio National Bank."

Chairman Eccles read a telegram, just received from the Chairman of the Federal Reserve Bank of Philadelphia, which advised that the board of directors of the bank, at a meeting today, had appointed Mr. William H. Hutt as Vice President of the bank for the period from March 1 to December 31, 1936, inclusive, and, subject to approval by the Board, had fixed his salary at the rate of \$18,000 per annum, which is the same salary he was receiving at the close of February 29, 1936, as Deputy Governor.

Upon motion by Mr. Broderick the salary fixed by the directors for Mr. Hutt in his new position was approved for the period stated.

The meeting then recessed and reconvened at 3:45 p. m., the same members of the Board and its staff being present as were in attendance at the morning session.

Mr. Broderick moved that the Secretary's office be authorized and requested to furnish each member of the Board on Monday morning of each week a statement showing the status, as of the preceding Friday, of all questions, studies, and surveys under consideration by any individual member of the Board, committee of the Board, or division of the Board's staff, in connection with matters which have been specifically referred to them by the Board.

Carried unanimously.

Mr. Broderick then moved that the Board consider the advisability of amending Regula-

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tion "T", Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, as well as the desirability of issuing promptly revised editions of Regulation "A", Advances to and Discounts for Member Banks by Federal Reserve Banks, and Regulation "F", Trust Powers of National Banks, and that preparatory to such consideration these matters be referred, for recommendation to the Board, to the members of the Board to whom the subject matters covered by the respective regulations had been assigned.

Carried unanimously.

Mr. Broderick also moved that Mr. Parry, Chief of the Division of Security Loans, be requested to furnish to the members of the Board not later than March 13, 1936, for study and consideration, copies of a draft of Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Equity Securities Registered on a National Securities Exchange.

Carried unanimously.

Mr. Broderick inquired as to when it was proposed to call the Presidents of the Federal reserve banks to Washington for a conference and whether it was proposed to hold, in connection with such conference, a meeting of the Federal Open Market Committee. Chairman Eccles stated that he would prefer to defer the meeting until the Presidents had been appointed and approved at all banks but that he did not feel the meeting should be delayed beyond the middle of the month on that account.

The matter was discussed and the Chairman was authorized to call a meeting of the Presidents in Washington beginning on Monday, March 16, 1936, with the understanding that following the conference of Presidents an organization meeting of the Federal Open Market Committee would be held.

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In connection with the above, counsel was requested to submit to the Board, prior to the date of the meeting of the Federal Open Market Committee, an opinion as to the validity of the elections of the five members of the Federal Open Market Committee elected by the Federal reserve banks to represent the banks.

In connection with a discussion of topics for the meeting with the Presidents Chairman Eccles requested the members of the Board to submit any suggestions they may have to make in that connection to Mr. Clayton who would prepare a tentative program for the conference.

There was then presented a draft of telegram replying to a letter dated March 2, 1936, from the Secretary of the Federal Reserve Bank of Cleveland transmitting a preliminary draft of the amended by-laws of the bank as they would be submitted to the board of directors at its meeting on March 6, 1936. Section 1 of Article 3 of the draft of by-laws provided that all officers of the bank, other than the President or First Vice President, should be chosen annually by the board of directors at its regular meeting preceding the first day of March of each year, and that all such officers should hold office for a term of one year commencing on the first day of March or during the pleasure of the board of directors. The proposed telegraphic reply stated that the Board did not desire to make any change at this time in the existing practice under which Federal reserve banks consider and submit for approval of the Board of Governors in January of each year compensation to be paid officers and employees covering the period of the calendar year, and that, accordingly, the bank may wish to give further consideration to the provisions of Section

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1 of Article 3 of the proposed by-laws.

All of the members present being in agreement that no change should be made in the practice followed by the Board in approving salaries for the calendar year, the proposed telegram was approved unanimously.

Mr. Ransom called attention to a memorandum dated February 18, 1936, from Mr. Broderick transmitting a letter dated February 13, 1936, from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, requesting approval of changes in the bank's personnel classification plan to provide for a lowering of the hourly wage scale for watchmen, window cleaners, porters and charwomen, in connection with a procedure which contemplated an increase in the number of working hours of these employees so that they will be in line with the working hours of similar employees in other large downtown banking institutions which operate their own buildings. The memorandum stated that the proposed changes would increase the working hours of watchmen, night porters and night charwomen to the schedule in effect prior to the adoption of the re-employment agreement by the bank in 1933, while the number of working hours of window cleaners, day porters and day charwomen would be somewhat less than those in effect prior to 1933. The memorandum had been circulated among the members of the Board and Mr. Ransom had requested that it be considered at a meeting.

During a discussion of the matter, Chairman Eccles suggested that the Federal Reserve Bank of New York be advised that the proposed changes should be considered by the bank in connection with a survey

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of the entire organization and personnel of the bank with a view to effecting such changes therein as may be necessary in the interest of the economical and efficient conduct of the bank's affairs.

Mr. Eccles' suggestion was agreed to unanimously by the other members of the Board, and Mr. Smead was requested to prepare a letter to the Federal Reserve Bank of New York in accordance therewith.

Messrs. Thurston, Wyatt and Smead left the meeting at this point and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Curtiss, Austin and Wood, Chairmen of the Federal Reserve Banks of Boston, Philadelphia and St. Louis, stating that the Board approves the establishment without change today by the respective banks of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter dated February 3, 1936, presenting a question submitted by Mr. A. E. Wilson, Secretary and Treasurer of the First Bank Stock Corporation, Minneapolis, Minnesota, regarding the payment of interest accruing after January 1, 1936, on deposits which have heretofore been classified as savings deposits but which, under the provisions of section 1(e) of Regulation Q, may no longer be so classified.

"It would appear that Mr. Wilson's inquiry relates to some case or possible cases in which the member bank was unable to contact the customer and convert the savings deposit,

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"with the customer's knowledge, into another type of deposit until after January 1, 1936. It would appear from his letter that the delay in converting the account may have resulted from some doubt on the part of the member bank as to whether the provisions of Regulation Q specifically refer to the type of deposit in question and it further would appear that the bank had been awaiting some ruling on the regulation.

"In the opinion of the Board, it became the duty of a member bank to take action to effect a transfer of deposits into the correct classification as soon as it received a copy of the revision of Regulation Q, in order that all deposits might be brought into conformity with the regulation by January 1, 1936.

"The Board concurs in the conclusion stated in your letter to the effect that a member bank may not pay interest accruing after January 1, 1936, on a deposit which was not properly classified during the period in which the interest accrued. However, it is possible that Mr. Wilson may have some exceptional case where unusual circumstances would justify him in submitting all of the facts to you for consideration. In such event, if you deem it necessary or advisable, you may submit the particular case to the Board together with your recommendations.

"The Board would not be justified, in its opinion, in issuing any general ruling which might cover a large number of cases and which would establish the right of member banks to pay interest on improperly classified deposits for a period beyond January 1, 1936, and Mr. Wilson's statement of the matter is in such general terms as to make possible such a construction of an affirmative answer to the question presented in his letter."

Approved unanimously.

Letter to Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"In the fifth paragraph of your letter of January 10, 1936, giving the results of a comparison made of deposits as shown in the November 1, 1935 call reports and as shown in the reports of deposits submitted for reserve purposes, you state that the only differences that were difficult to reconcile or to discuss with the member banks were in connection with 'branch clearing' balances carried on the books of branch banking institutions, and you make inquiry as to the proper classification of such balances in preparing call reports and in computing the daily deposit liability for reserve reports.

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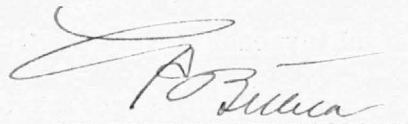
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"As you know, this matter has been considered informally on a number of occasions in the past, from the standpoint of whether such 'branch clearing' accounts could be considered as constituting balances 'due from banks' within the meaning of the former provisions of section 19 of the Federal Reserve Act. It appears from a letter which Mr. Sargent addressed to the Board under date of March 5, 1934, that most of the items in the 'branch clearing' account represent (1) checks drawn on a member bank (or offices or branches thereof) for which deposit credit or its equivalent has been given at offices or branches of such member bank other than those at which the depositors' accounts are carried, and that sufficient time has not elapsed for the items to have reached the latter offices or branches and be charged to the depositors' accounts, and (2) checks drawn on another bank which have been deposited in a member bank (or offices or branches of such member bank) and have been forwarded for collection to other offices or branches of the member bank located in the same city or vicinity as the drawee bank.

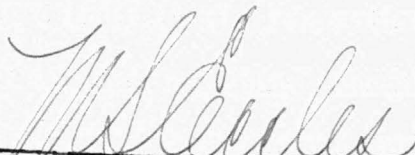
"It is the view of the Board that items of the type described above constitute 'cash items in process of collection' within the meaning of paragraph (g) of section 1 of Regulation D and, accordingly, to the extent that the 'branch clearing' account consists of such items, the balance in the account may be deducted from gross demand deposits in determining required reserve balances and should be included in item 2 of Schedule I in call reports."

Approved unanimously, together with a letter to the Federal reserve agents at all Federal reserve banks transmitting, for their information and guidance, a copy of the above letter.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.