

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, April 17, 1936, at 10:30 a. m.

PRESENT: Mr. Broderick, Chairman pro tem
Mr. Szymczak
Mr. Ransom

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. Parry, Chief of the Division of Security Loans
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Vest, Assistant General Counsel
Mr. Van Fossen, Assistant Chief of the Division of Bank Operations

At the request of Mr. Broderick there was read a memorandum addressed to him under date of March 13, 1936, by Mr. Smead, Chief of the Division of Bank Operations, with respect to reimbursement of the Federal reserve banks by the Treasury for the cost of replacing the existing stocks of unissued Federal reserve notes of the 1928 series, which bear on their face the words "Redeemable in Gold", with an equal number of notes of the 1934 series. The memorandum stated that advice had been received from the office of the General Counsel of the Treasury that an appropriation had not been obtained.

Mr. Broderick stated that he had been advised recently by the Treasury Department that the matter of obtaining the proposed appropriation had been given careful consideration by Treasury officials and that the conclusion had been reached, for reasons which Mr. Broderick

4/17/36

-2-

outlined, that the present was not an opportune time to seek the appropriation.

The matter was discussed, but no action was taken.

There was presented a memorandum dated April 17, 1936, from Mr. Parry, recommending that the Board authorize the printing of the first issue of a list of stocks registered on national securities exchanges for distribution primarily to banks for the purpose of facilitating compliance by them with the provisions of Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange. The memorandum stated that investigation has shown that there was available to banks from other sources no publication that would conveniently serve their purposes and the purposes of the Board; that it is possible that a suitable list may become available in the future from one or more other sources; and that, if this should be the case, it was contemplated that the list published by the Board would be discontinued. The memorandum stated further that it was contemplated that copies of the first and subsequent issues of the list would be furnished to the banks and that at least the first issue would be sent to anyone on request without charge, but that, if the demand should be such as to indicate a substantial demand for subsequent issues, the Board should consider prior to the publication of the first supplement the fixing of a subscription price (possibly \$1.00 per year) to persons other than banks.

4/17/36

-3-

Mr. Parry's recommendation with regard to printing the first issue of the list was approved unanimously.

Reference was then made to a letter dated April 15, 1936, to Dr. Parry, from Mr. Robert V. Fleming, President of the American Bankers Association, with which he transmitted copies of a memorandum prepared by a subcommittee of a special committee appointed by him to confer with the Board with regard to Regulation "U". The letter requested that an opportunity be afforded to the members of the subcommittee to appear before the Board at an early date to present to the Board their views on the two questions referred to in the memorandum.

There followed a discussion of the memorandum, at the conclusion of which the Secretary was requested to advise Mr. Fleming that the Board would be pleased to meet with the members of the subcommittee on Wednesday, April 22, 1936, at 2:30 p. m.

In connection with this matter, the suggestion was made that it would be desirable that a representative of the Federal Reserve Bank of New York be present at the meeting and that, as Mr. Rounds, Vice President of the bank, was familiar with the subject matter of the memorandum, arrangements should be made for him to attend. In accordance with this suggestion the Secretary was requested to communicate with Mr. Rounds and the Federal Reserve Agent at New York with a view to arranging for the attendance of Mr. Rounds at the meeting.

It was understood that the senior members of the staff would consider the recommendations contained in the memorandum received from the subcommittee of the American Bankers Association prior to the date of the meeting with the subcommittee.

It was also understood that Mr. Parry would discuss the questions presented in the

4/17/36

-4-

subcommittee's memorandum with representatives of the Securities and Exchange Commission and, if possible, obtain the Commission's views with regard thereto prior to the date of the meeting with the subcommittee.

At this point Messrs. Thurston, Parry, Bradley, Vest and Van Fossen left the meeting 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. Kimball, Strater, and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland, and Chicago, respectively, and to Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the New York bank on April 16, 1936, and by the Cleveland, Chicago and Dallas banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 16, 1936, from Mr. Morrill referring to the approval by the Board on April 14, 1936, of the appointment of Mr. Sampson H. Bass as Voucher Clerk in the Secretary's Office, with salary at the rate of \$1,800 per annum, subject to his passing satisfactorily the usual physical examination. The memorandum stated that the report of the Board's examining physician of Mr. Bass' physical condition had not been satisfactory for the reason set forth in the memorandum; that Mr. Bass' personal physician was of the opinion that the unsatisfactory condition may eventually be removed and Mr. Bass is

4/17/36

-5-

taking treatments at the present time for that purpose; and that in view of the circumstances and Mr. Bass' unusual training and experience which make him exceptionally desirable for the position as Voucher Clerk, it was believed that the Board would be justified in employing him on a temporary basis with the understanding that if, within the course of the coming year, he is able to pass satisfactorily the usual physical examination, he will be employed on a permanent basis and made a member of the Retirement System, and that if at the end of the year his physical condition is still unsatisfactory he will be retained in a temporary status for such additional period as may be reasonably necessary to enable him to find other satisfactory employment. The memorandum recommended that, with the above understanding, Mr. Bass be employed on a temporary basis as a Voucher Clerk in the Secretary's Office, with salary at the rate of \$1,800 per annum, effective as of the date upon which he enters upon the performance of his duties, and with the further understanding set forth in Mr. Morrill's memorandum of April 13, 1936, that this salary will be treated as operative during a period of probation of two or three months at the end of which time, if Mr. Bass measures up to the responsibilities of his position in a satisfactory manner, the Secretary's Office will recommend an adjustment of his salary to a larger amount.

Approved unanimously.

Memorandum dated April 17, 1936, from Mr. Kramer, Superintendent of Construction for the Board's new building, recommending that Mr.

4/17/36

-6-

Robert Newton Linke be appointed on a temporary basis as inspector for the driving of piles and reinforced concrete work for the Board's new building, with salary at the rate of \$2,100 per annum, effective as of the date upon which he enters upon the performance of his duties, it being understood that Mr. Linke's employment would not exceed six months. Mr. Morrill had noted on the memorandum that the proposed appointment was within the original estimate of the organization required for this work.

Approved unanimously, with the understanding that Mr. Linke would be carried on the payroll as a temporary employee in connection with the construction of the Board's building and that, therefore, it would not be necessary for him to submit to a physical examination or become a member of the Retirement System of the Federal Reserve Banks.

Letter to Mr. Sproul, Acting Secretary of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of April 9 inclosing a letter addressed to the Board by all the directors of your bank who were present at an executive session of a meeting of the board of directors held on that date, regarding the retirement of Mr. Case as chairman of the board.

"The Board has given careful consideration to the letter received from your directors and there is inclosed a reply thereto, which you are requested to bring to the attention of the directors who signed the letter of April 9."

Approved unanimously, the inclosure referred to above addressed to the board of directors of the New York bank reading as follows:

"The Board of Governors of the Federal Reserve System has given very careful consideration to your letter of April 9, recommending that Mr. Case be continued as Chairman of the Board

4/17/36

-7-

"and Federal Reserve Agent at your bank, and setting forth the reasons underlying your recommendation.

"The Board fully appreciates the considerations which prompted your letter and recognizes that the personal aspects of a matter of this kind present greater difficulties than any other phase of a broad program involving organization changes. In adopting a policy designed to avoid dual executive responsibility at the Federal Reserve banks and to effect at the same time substantial economies in the operations of the System, the Board was not unmindful of the long and faithful service of many of the Chairmen or the resulting repercussions which might occur due to the personal associations and contacts which had developed during long years of service. Entirely apart from a determination on the part of the Board not to permit sentiment to color its judgment as to the course which should be taken in the best interests of the System as a whole, it has made a sincere effort to deal sympathetically and equitably with individual situations as they arose. As evidence of the Board's solicitude for the personal welfare of the retiring Chairmen, most of whom were approaching or had reached the retirement age, the Board, as you know, authorized the payment to each of them, either in cash or as a supplemental contribution to the retirement fund, of an amount equivalent to six months' salary in addition to the retirement allowance to which he would be entitled beginning at age sixty-five under the rules and regulations of the retirement system.

"In advising Mr. Case of the action taken, the Board expressed its appreciation of the faithful and valuable service which he had rendered in connection with the formulation and execution of the policies under which the Federal Reserve System has operated. Similar expressions were conveyed to other retiring Chairmen and the reaction from the individuals involved, as well as from the outside, has been favorable. In fact, the Board is convinced from the reception accorded its policy both by the press and the banking fraternity that the effect upon the System will be beneficial. With reference to the effect on the morale of the personnel within the System, it seems to the Board that its recent approval of the appointment of men within the System as Presidents and First Vice Presidents of the reserve banks should be an important factor in dispelling doubts as to whether employment by the System offers an opportunity for a career with reasonable security.

"It is suggested in your letter that the Board's policy regarding reserve bank Chairmen might be interpreted by the public as an attempt by administrative action to achieve the

4/17/36

-8-

"essence of a proposal rejected by the last Congress, and that therefore the contemplated action, prior to a change in the law, should be taken only if deemed 'critically urgent'. The Board considered this situation very thoroughly before adopting the policy referred to, and came to the conclusion that it had a responsibility to effect, within the limitations of existing law, such reorganization changes as would promote more efficient and economical operation of the System.

"After reviewing the entire situation in the light of the statements contained in your letter, the Board feels that it cannot properly deviate from its considered and announced policy. However, it is glad to have a candid statement of your views, and trusts that this explanation will serve to clarify its position in the matter."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Reference is made to the conversations that Mr. Ransom has had with Mr. Crowley, Mr. O'Connor, and Judge Birdzell, regarding Regulation III of the Federal Deposit Insurance Corporation, which requires banks whose deposits are insured by the Federal Deposit Insurance Corporation to use the term 'Member of the Federal Deposit Insurance Corporation' in their official advertising statements.

"In view of the fact that the use of this term by banks which are not members of the Federal Reserve System is causing some confusion with the term 'member bank', which has been used for many years to designate banks which are members of the Federal Reserve System, Mr. Crowley and Mr. O'Connor stated that you would be glad to consider any solution of the difficulty which we might be able to suggest.

"After giving the matter further consideration, it has occurred to us that the difficulty might be solved by using the term 'Insured Bank of the Federal Deposit Insurance Corporation.' The Board of Governors of the Federal Reserve System has discussed this suggestion and believes that the use of this term will solve the problem, and trusts that you will give it your consideration.

"The Board appreciates the cooperative spirit in which you are considering this problem and sincerely hopes that your Board will be able to adopt at an early date an amendment to its Regulation III which will eliminate the confusion growing out of the use by nonmember banks of the term 'Member of the Federal Deposit Insurance Corporation'."

Approved unanimously.

4/17/36

-9-

Thereupon the meeting adjourned.

Chesley Morley
Secretary.

Approved:

J. B. Prodenk
Chairman pro tem.