A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 22, 1936, at 2:30 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Morse, Junior Research Assistant, Division of Research and Statistics

ALSO PRESENT: Mr. Harrison, President of the Federal Reserve Bank of New York
Mr. Burgess, Vice President of the Federal Reserve Bank of New York
Mr. Williams, Vice President of the Federal Reserve Bank of New York

Chairman Eccles stated that this meeting had been called for the purpose of considering the question whether action should be taken by the Board to increase reserve requirements of member banks, and he called on Mr. Harrison for an expression of his views on that subject.

Mr. Harrison stated that he had felt since last October that there should be some increase in reserve requirements of member banks as a fundamental adjustment to changed circumstances and that he did

not see anything in the situation at the present time which would cause him to change his views. He also stated that in view of the large volume of excess reserves such action by the Board should not be regarded as a reversal of the present open market policy and that he did not feel that an increase in reserve requirements would have an adverse effect upon recovery, the furtherance of which was still the primary objective of the open market policy of the Federal Reserve System. He added that, in his opinion, the longer an increase in reserve requirements was delayed the more difficult it would be to take such action.

There followed a discussion of the question whether any increase in reserve requirements should be applied uniformly to country banks and reserve city banks, and consideration was also given to the question as to what the amount of the increase might be.

In response to a request that he discuss the possible effects of an increase in reserve requirements on the domestic capital market, Mr. Burgess expressed the opinion that the time had come when an increase in reserve requirements should be made and that such action would not increase long term rates but would tend to stop the downward trend of the yield on Government securities and would stabilize rates in the capital market at approximately the existing levels.

Chairman Eccles stated that he had discussed the general question of a change in reserve requirements with Chairman Landis of the Securities and Exchange Commission who had expressed the opinion that

it would not be wise to take any action which would result in fear on the part of potential borrowers or increase any hesitancy that they might feel to go into the capital market for funds. Mr. Landis also stated, Chairman Eccles said, that he realized that, while an increase in reserve requirements might have a retarding influence on recovery, failure to take action might result in undesirable speculation in real estate and securities, and that he felt the question was primarily one of timing the action to be taken by the Board.

At the request of Chairman Eccles, Mr. Williams discussed the advisability of increasing reserve requirements in the light of the foreign situation and the possibility of withdrawals of gold from this country. He stated that his analysis of the situation indicated a greater probability of an inflow of gold than of a reverse movement, and that even if events should occur which would result in an outward movement, the Federal Reserve System would be able to meet it by purchases of securities in the open market. He added that, in his opinion, an increase in reserve requirements would be reassuring to the country and would not have a chilling effect on business if the increase were not too great. He also expressed the opinion that action by the Board was desirable in order to avoid allowing a situation to arise which would have to be corrected later, and that action should not be delayed because of a possibility of the analysis of the foreign situation being incorrect.

Certain elements in the foreign monetary situation, including the possibility of a loss of gold resulting from devaluation of the franc and other foreign currencies, were discussed.

In connection with a discussion of the timing of any action that might be taken by the Board to increase reserve requirements, Chairman Eccles raised the question as to whether action would not be as effective in July following the completion of the June Treasury financing as action taken before that time. He also suggested that if action were taken to increase reserve requirements before the June financing program was announced it might have the effect of increasing the rates on the new securities which would tend to stiffen rates in the long term money market, and that this was an effect which should be avoided at this stage of recovery when the flotation of securities for new financing is getting under way. In connection with this point, Mr. Burgess expressed the opinion that it would be better to increase reserve requirements before the June financing is announced rather than thereafter for the reason that, while such action undoubtedly would react on the securities market, the effect would be a temporary one to which the market would very quickly adjust itself.

Mr. Harrison stated that he realized fully the risks which would be taken by the Board of Governors of the Federal Reserve System in increasing reserve requirements, but that he believed there would be less risk in taking action now than in deferring action until some later date and that he felt that there was a strong possibility that

action taken now would create confidence and result in a fundamental improvement in the long term capital market.

At this point, Messrs. Harrison, Burgess, Williams, Parry, Thomas, and Morse left the meeting.

The discussion of the question whether action to increase reserve requirements should be taken at this time was resumed and it was suggested that before action is taken the Board should have more information as to the possible effect thereof upon the reserve positions of member banks. It was stated that the information on this point, which had been requested from the Federal reserve banks, would not be received before Monday, April 27, 1936.

> Accordingly, it was agreed unanimously that further consideration of the matter should be deferred until some date after April 26 and that it should be taken up again for consideration not later than May 1.

At this point, Messrs. Thurston, Goldenweiser, Wyatt, and Smead 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:

Letter to Mr. Thomas, Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

> "The Board of Governors of the Federal Reserve System approves the application of 'The Peoples Bank', Pratt, Kansas, for permission to exercise all fiduciary powers authorized under its charter and the laws of the State of Kansas, on the following conditions:

"1. Such bank shall not invest funds held by it as fiduciary in obligations of or property acquired from the bank or its directors, officers, employees, members of their families, or their interests, or in obligations of or property acquired from affiliates of the bank.

2. Such bank shall not invest funds held by the bank as fiduciary in participations in pools of mortgage bonds or other securities, and the securities and investments of each trust shall be kept separate from those of all other trusts and separate also from the properties of the bank itself; provided, however, that the Board of Governors of the Federal Reserve System will not object to the collective investment of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage, if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary, and if such collective investment is not prohibited by State law or the instrument creating the trust.

3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"You are requested to advise The Peoples Bank, Pratt, Kansas, of the Board's action, and to obtain an appropriate resolution of the board of directors of the bank accepting these conditions and forward a certified copy thereof to the Board.

"It has been noted that your examiner criticized the bank for its failure to properly invest the funds of the one trust account now held by it, and for not pledging security to cover trust funds deposited in its savings department; also that the bank, in its letter to the Board of March 7, 1936, states that the funds in question are to be invested in Government bonds. Please satisfy yourself that this has been done,

"and that the management of the institution appreciates the importance of adhering strictly to the applicable provisions of State law and the terms of the trust instruments as well as the conditions imposed by the Board."

Approved unanimously.

Memorandum dated March 16, 1936, from Mr. Smead, Chief of the Division of Bank Operations, transmitting the annual reviews submitted by the Federal reserve agents as of December 31, 1935, in compliance with the Board's letters of December 4, 1926 (X-4739), and October 5, 1933 (X-7629), covering the sixty-two member banks located in an outlying section of a central reserve or reserve city, except New York City, which had been authorized by the Board to carry reduced reserves on demand deposits. The memorandum stated that the Federal reserve agents in the eight Federal reserve districts in which these banks were located had indicated that there had not been a sufficient change in the character of business of any of these banks to justify a change in their reserve requirements, and that there had been no change in the districts in which the banks are located that would warrant regarding them as being other than outlying districts, and that they had recommended that the present reduced reserve requirements in the case of such banks be continued. The memorandum also stated that, in connection with the annual review of member banks in the Chicago district authorized to carry reduced reserves, the board of directors of the Federal Reserve Bank of Chicago, at its meeting on January 24, 1936, had voted to recommend to the Board of Governors that the I-C Bank and

Trust Company of Chicago, Chicago, Illinois, which was admitted to membership on December 24, 1935, be permitted to carry a 10 per cent reserve against demand deposits instead of 13 per cent, as the bank was located 7 miles from the business section, had no "due to bank" deposits, and served only the immediate neighborhood. The memorandum recommended that the respective Federal reserve agents be advised that the Board approves their recommendations that all of the member banks which had authority to carry reduced reserves at the end of 1935 against demand deposits shall continue to have such permission, and that the I-C Bank and Trust Company of Chicago, Chicago, Illinois, be granted permission to carry a reserve of 10 per cent instead of 13 per cent against demand deposits, effective with the first weekly computation period beginning after April 22, 1936.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.