

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, May 19, 1936, at 10:00 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
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. Vest, Assistant General Counsel

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

President Smith stated that, as it seemed likely that there would be no banking legislation at the present session of Congress, the Council had decided not to discuss with the Board the two topics (advice of which was contained in Mr. Lichtenstein's letter of May 13, 1936, to Mr. Morrill) which had been suggested for discussion at this meeting of the Council. In this connection, Chairman Eccles outlined briefly the circumstances which led to the decision that no legislation relating to banking would be recommended by the Board to the present session of Congress.

In response to an inquiry from President Smith as to whether there had been any change since the last meeting of the Council in the status

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of subsection 1(f) of Regulation "Q" which prohibits the absorption by member banks of exchange and collection charges, it was stated that the effective date of the subsection had been deferred pending further consideration of the subsection by the Board in the light of the regulation issued by the Federal Deposit Insurance Corporation with respect to the payment of interest by insured nonmember banks; that Mr. Ransom had been studying the matter and had obtained the views of many banks and clearing house associations with respect thereto; and that as soon as he returned to the office he proposed to take the matter up again with the Federal Deposit Insurance Corporation following which he would make a recommendation to the Board concerning the action to be taken by it.

President Smith expressed the opinion that the regulation issued by the Comptroller of the Currency on February 15, 1936, governing the purchase of investment securities and further defining the term "investment securities" was not practical in its operation and would result in member banks purchasing only high grade securities at a high premium on which they would be apt to suffer loss. He also stated that the regulation operated to exclude from the investment portfolios of member banks the security issues of local concerns which were not included in recognized rating manuals.

During the discussion which followed, Mr. Broderick stated that, in response to inquiries made by the Federal Reserve Bank of New York, the Comptroller of the Currency had issued rulings interpreting the regulation; that it was understood that the Federal Reserve Bank of New York

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had suggested that these rulings be published or that the Federal reserve bank be authorized to send them to its member banks; and that it was believed that the rulings would answer a number of questions raised by the regulation.

Chairman Eccles suggested that, in view of all the circumstances, it would be desirable for the Federal Advisory Council to study the effects of the regulation and submit to the Board a report thereon with recommendations as to the action to be taken.

In connection with a statement by President Smith which indicated a feeling on his part that there should be some simplification of the law relating to the payment of dividends by national banks, Chairman Eccles referred to the consideration given by the Board recently to Senate Bill 4514 relating to the payment of dividends by national banks and stated that there were certain objections to the bill in its present form and that there was little likelihood that it would be passed at the present session of Congress.

President Smith referred to the informal understanding reached at the meeting of the Federal Advisory Council with the Board on February 11, 1936, that the fall meeting of the Council would be held on September 21-22, 1936, and stated that in view of the fact that the annual convention of the American Bankers Association will be held on September 21 to 24, 1936, inclusive, it had been suggested that the fall meeting of the Federal Advisory Council be held on September 9-10. It was indicated that the dates suggested for the meeting of the Federal Advisory Council were

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satisfactory to all present.

Mr. Wold inquired as to the nature of the comments received by the Board with respect to the revised Regulation "F", Trust Powers of National Banks, recently issued by the Board and Chairman Eccles stated that few comments had been received and that they had been generally favorable. Mr. Wold expressed the opinion that it would be extremely difficult to get directors of national banks exercising trust powers to serve on the trust investment committee required by the regulation. Reference was made by Mr. Brown to questions which would arise under subsection 11(a) of the regulation which provides that funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, and it was stated that the form in which the regulation was drawn had been given special study and it was felt that the practical way to deal with the matter would be for the Board to issue rulings on the basis of specific cases as they arise.

At the request of Mr. Broderick, statements were made by each member of the Federal Advisory Council with regard to general business conditions in the respective Federal reserve districts. The reports indicated improvement in the general business situation, with substantial improvement in agricultural conditions and in residential construction in certain districts.

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Thereupon the meeting adjourned.

Chester Howie
Secretary.

Approved:

W. S. ...
Chairman.