

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 26, 1936, at 2:30 p. m.

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

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

There was presented a draft of an entry for the policy record, required to be kept by the Board under the provisions of section 10 of the Federal Reserve Act, covering the action taken by the Federal Open Market Committee on matters of policy at its meeting in Washington on March 19, 1936. The draft had been approved by Messrs. Goldenweiser and Thurston, and Mr. Wyatt had attached a memorandum to the file expressing doubts as to the adequacy of the statements contained in the draft of the reasons underlying the actions taken. Copies of the draft of entry and Mr. Wyatt's memorandum had been sent to the members of the Board for their information prior to discussion at a meeting of the Board.

Mr. Wyatt elaborated upon the comments contained in his memorandum as to the adequacy of the proposed draft and stated that he had no strong feeling in the matter, but that he believed that if the entry were placed in the record in its present form it was possible that the Board might be accused of not complying with the requirements of the law that the policy record contain a full account of the actions taken and the underlying

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reasons therefor. During the ensuing discussion some of the members of the Board expressed the opinion that in the interest of the simplicity and usefulness of the record the record should be as brief as possible in the light of the requirements of the law and should not be enlarged as suggested by Mr. Wyatt.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the entry was approved in the following form:

"The Committee considered and, by unanimous vote, adopted a regulation relating to open market operations of the Federal reserve banks, in order to comply with the provisions of Section 12A(b) of the Federal Reserve Act as amended by the Banking Act of 1935. The regulation thus adopted states the principles governing purchases and sales in the open market by Federal reserve banks, and contains provisions concerning the conduct of open market operations by the Federal reserve banks, including transactions for the System open market account, the functions of the Committee, and the organization and functions of its executive committee.

"The Committee, by unanimous vote, ratified all transactions for the System open market account and all open market transactions by individual Federal reserve banks for their individual accounts which had taken place during the period from March 1 to March 19, 1936, inclusive; such transactions being considered necessary to the administration of the existing accounts and the proper conduct of the business of the Federal reserve banks pending the organization of the Federal Open Market Committee.

"It was agreed by the full Committee that the executive committee should have such authority, during the period between this meeting and the next meeting of the full Committee, as might be necessary in the proper administration of the System open market account to enable it to replace maturing securities and to make shifts in maturities to meet changing market conditions, including a limited authority for shifts in the account from shorter maturities to Government bonds. Accordingly, by unanimous vote, the executive committee was instructed to direct the replacement of maturing securities in the System account with other Government securities and to make such shifts between maturities in the account as may be necessary in the

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"proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$350,000,000. It was understood that the authority granted to the executive committee by the above action would continue only until the next meeting of the Federal Open Market Committee.

"It was also the consensus of the members present that the executive committee should have authority to buy or sell (which would include authority to allow maturities to run off) securities for the System open market account within reasonable limits as to amount, in order that the Committee might be in a position to act promptly if circumstances not foreseen at this meeting should make such action desirable before another meeting of the full Committee. Accordingly, by unanimous vote, the executive committee was authorized, subject to telegraphic approval by a majority of the members of the Federal Open Market Committee, to direct the purchase or sale of Government securities for the System open market account up to an aggregate amount of \$250,000,000.

"By unanimous vote, the Committee also authorized each individual Federal reserve bank holding Government securities in its own portfolio to replace maturing securities in such account, and, with the approval of the executive committee, to make shifts between maturities in the account, provided that no change in the total amount of Government securities held by the Federal reserve bank was effected by such transactions. The authority granted to the Federal reserve banks by this action corresponded to that granted to the executive committee in connection with the administration of the System open market account and was deemed necessary for similar reasons."

During the discussion of the above matter Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

There was then presented a letter dated May 20, 1936, from the Acting Executive Director of the National Emergency Council, requesting that the Board furnish the Council with a copy of all existing contracts with the F. W. Dodge Corporation relative to reports purchased from the Corporation and that, if special reports were obtained from time to time, the Board supply detailed information regarding their nature and cost.

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It was pointed out that the Board is a participant with eight Federal reserve banks in a group subscription to the Dodge Statistical Research Service and that by private arrangement a special price is paid for the subscription, the expense to the Board being \$78.75 per year. It was also stated that under the terms of the subscription all parts of the service are confidential and each bulletin bears a notice that the report contains confidential information gathered, prepared and owned exclusively by the F. W. Dodge Corporation, that its use in a particular manner is granted only by contract or special written permission, and that any other use will be prosecuted. Mr. Goldenweiser stated that the letter referred to above was the result of a telephone call to his Division from the offices of the National Emergency Council requesting certain information from the Dodge reports and that, because of the circumstances under which the information was furnished, his office had declined to give the requested information. He also stated that it was his understanding that the regular subscription price to the Dodge Statistical Research Service was \$100 per year and that the service would be made available to the National Emergency Council upon the payment of the subscription price.

The Secretary was requested to address a letter to Mr. Alverson advising that the Dodge service is furnished to the Board as a part of a group subscription by the Board and eight Federal reserve banks, that the Board has no written contract with the Corporation covering the service, that the service is furnished with the distinct understanding that the information contained in the reports is confidential and is not to be given out by the Board except with the

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permission of the Corporation, and that it is understood that the cost of the service is \$100 per annum for individual subscriptions.

Mr. Morrill referred to the action taken by the Board on April 23, 1936, in extending for one month from April 30, 1936, the employment of Mr. C. S. Bradley who was acting as Secretary Mr. Morrison. Mr. Morrill pointed out that, as Mr. Morrison had tendered his resignation as a member of the Board, the question was presented as to what action should be taken by the Board with regard to the continuance of the employment of Mr. Bradley, that he had brought the matter of Mr. Bradley's retention in the Board's organization to the attention of the other division heads without result, except that it appeared that on certain work which was being conducted under the direction of Mr. Blattner, Mr. Bradley's services might be used for three or four months at a substantial reduction in salary, but that Mr. Bradley had stated that he would not be satisfied to remain on the Board's staff if his salary were substantially reduced.

Mr. Broderick stated that he had under investigation a possible placement of Mr. Bradley in other employment and that he desired to recommend to the Board that Mr. Bradley be retained on the Board's payroll for one month from May 31, 1936, with salary at the rate of \$3,000 per annum, and with the understanding that in the event his services are not continued beyond June 30, 1936, there will be paid to the Retirement System, in accordance with the action taken by the Board on January 30, 1936, an amount equal to six months' salary for the purpose of increasing

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the annuity to which Mr. Bradley would be entitled under that System.

After discussion, Mr. Broderick's suggestion was approved unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser 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.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on May 25, 1936, were approved unanimously.

Bond, in the amount of \$50,000, executed under date of May 14, 1936, by Mr. Daniel William Woolley as Acting Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City.

Approved unanimously.

Letter to Mr. W. H. Wilkes, St. Louis, Missouri, reading as follows:

"This refers to your letter of May 7, 1936, with reference to the plan under which certain banks in the State of Illinois were reorganized, and with reference to the question whether the Board would look with disfavor upon certain modifications in such plan of reorganization. It is understood that the banks to which you referred, at the time of their reorganization, issued to waiving depositors certificates which are payable after other claims of depositors and other creditors shall have been provided for, but which are payable before the payment of any dividends or the distribution of any assets of the banks to their stockholders. You have suggested that a bank which was reorganized in this way might be relieved of any obligation on certificates issued to waiving depositors if the assets charged off at the time of the reorganization should be placed in trust, together with all of the stock of the bank for a limited period of time, and certificates in such trust be issued to the waiving depositors who would release their claims against the bank. It

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"is contemplated that dividends on the stock of the bank held in the trust would accrue to the benefit of the waiving depositors during the period in which the stock is so held. Your letter was accompanied by authorizations from the State Bank of East Moline, East Moline, Illinois, and the American State Bank, Bloomington, Illinois, to discuss with the Board the proposed modifications in the plan of reorganization, and you have inquired whether the recent admission to membership by the Board of certain banks which at the time of their reorganization issued certificates to waiving depositors of the kind described above would cause the Board to look with disfavor upon any effort to effect a modification of the plan under which such banks were reorganized.

"When the Board acted upon the applications for membership referred to above, the question presented to it in connection with the certificates which had been issued by the banks to waiving depositors was whether any obligation on such certificates rendered the banks ineligible for membership, and the Board ruled that the fact that such certificates were outstanding did not render the banks ineligible for admission and has admitted to membership certain banks which had such certificates outstanding. In answer to your specific question, it may be stated that the admission to membership of banks which have outstanding certificates of the kind referred to above, does not indicate that the Board would not be in sympathy with any effort by any such bank looking toward modification of the contract under which such certificates were issued, assuming, of course, that such modifications would be equitable and acceptable to the holders of the certificates; would be to the advantage rather than to the disadvantage of the bank; and would not affect its eligibility as a member of the System. Likewise, on the same basis, the Board would not consider such action on the part of a nonmember bank, which may apply for membership, as a bar to its consideration for membership. It is suggested, however, that if any State member bank or any State bank which is contemplating applying for membership desires to undertake such a modification of the contract under which the certificates were issued, it confer with the Federal Reserve Bank of its district before such steps are actually taken."

Approved unanimously.

Letter to Mr. Wheeler, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of May 12, 1936, inclosing a copy of a letter from Messrs. Ackerman, Wayland and Mathews,

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"submitting the following case under Regulation T:

"The account of a customer with a broker is restricted. The customer sells 100 shares of stock realizing the sum of \$1000 after taxes and commissions. On the same day he asks the broker to pay him from the account the sum of \$450. Would this combination of transactions effected on the same day result in a net withdrawal from the account under section 4(d) of the Regulation?

"The net effect of such a combination of transactions made on the same day would be a 'net withdrawal' as defined in section 2(1) of Regulation T, since there would occur a payment from the account of money (\$450) and delivery of registered securities having an aggregate current market value (\$1000), together exceeding the amount of money (\$1000) paid into the account on the same day."

Approved unanimously.

Letter to Mr. Powell, Assistant Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Your letter of May 12 to Dr. Goldenweiser and the copy of remarks made by you before a meeting of officers of the Northwestern National Bank & Trust Company of Minneapolis and its local branches on Monday, May 4, have been brought to the attention of the members of the Board of Governors. It is noted that you delivered the same talk at a bankers' group meeting on another occasion and that requests for similar talks may come in from time to time.

"The question as to whether the Board should take action to increase reserve requirements in view of the volume of excess reserves of member banks is one which, as you know, has been under consideration for some time past by the Board of Governors and involves a matter of policy of major importance. In these circumstances there is always present the possibility that listeners may misinterpret the remarks in some manner or draw the erroneous conclusion that in some way the speaker represents the views of the Board of Governors notwithstanding the exercise of care to avoid misunderstanding.

"The members of the Board appreciate the fact that you have dealt with this difficult subject so carefully and competently that there should not be, so far as your remarks are concerned, any possibility of misunderstanding. As you know, the officers of the banks are frequently called upon to speak and it is desirable that they should do so as a matter of improving public

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"relations. The question has been raised, however, as to whether on such occasions it would not be preferable to avoid discussions of current policy matters such as excess reserves. The authority of the Board over excess reserves is, of course, among the powers to be enumerated in any discussion of the System's operations, but the members of the Board are inclined to feel that so far as they are concerned, they should not single out the problem of excess reserves for special discussion in such talks as they make, particularly because it is so closely interwoven with other and broader issues which are not only highly controversial, but, as you are aware, part of a very large picture.

"I desired to explain this to you confidentially and to make clear that the members of the Board are not in any sense whatever desirous of being critical of your careful and thoughtful presentation. They felt that inasmuch as the question which I have indicated had been raised with reference to such talks as they might give, you would wish to be informed as to the attitude which will govern their own public utterances. This, of course, refers only to addresses and papers delivered publicly."

Approved unanimously.

Memorandum dated May 20, 1936, from Mr. Vest, Assistant General Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin, statements in the form attached to the memorandum with respect to the Board's recent rulings on the following subjects:

Payment of Interest after Maturity on Time Certificates of Deposit Renewed within Ten Days after Maturity.

Maximum Rate of Interest Payable on Time Certificate of Deposit Callable by Bank on 30 Days' Written Notice.

Stock Certificate of State Member Bank Representing Stock of Corporation Holding Bank Premises.

Renewal or Extension of Loans Made to Executive Officers of Member Banks Prior to June 16, 1933.

Interpretations of Regulation U.

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Amendment to Federal Income Tax Regulations.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

W. Sculer

Chairman.