A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 5, 1936, at 10:30 a.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. Paulger, Chief of the Division of Examinations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Blattner, Assistant Chief of the Division of Research and Statistics

Mr. Wyatt stated that the suggestion contained in the Board's letter of May 16, 1936, to the Chairman of the Senate Finance Committee that the proposed Revenue Act of 1936 (H.R. 12395) exempt holding company affiliates of member banks from tax on the part of their earnings which they retain in order to comply with the requirements of Section 5144 of the Revised Statutes, had been adopted by the Senate Finance Committee, but that the exemption had been made subject to a requirement that the Board certify to the Commissioner of Internal Revenue the amount of earnings or profits devoted by the holding company affiliate to the acquisition of readily marketable assets other than bank stocks during the taxable year in compliance with Section 5144. Mr.
Wyatt said that he had discussed with Messrs. Smead and Paulger the steps which would have to be taken by the Board to make the certification and that it was felt that such a requirement would be an unnecessary and expensive duplication of the work of the Bureau of Internal Revenue.

A discussion ensued, during which the members of the Board indicated agreement with the opinion that the requirement of certification by the Board was unnecessary and should be eliminated from the bill if possible. It was pointed out, however, that it was expected that the bill in its present form probably would be passed by the Senate today, following which it would be referred to a conference committee and that, in view of the many important questions which it would be necessary for the conference committee to consider, there was a possibility that any suggested change in the exemption would result in its complete elimination from the bill.

At the conclusion of the discussion it was understood that the Chairman would discuss the matter with representatives of the Treasury Department with a view to determining whether the elimination of the requirement of certification would be agreeable to the department and, if so, what, if any, steps might be taken to effect the elimination.

There was presented a memorandum addressed to Mr. Broderick by Mr. Paulger under date of May 21, 1936, with respect to the transfer of the examination function of the Federal reserve banks from the Federal reserve agents' departments to the operating side of the banks. The memorandum, copies of which had previously been furnished to the members
of the Board, read as follows:

"In accordance with the request of Chairman Eccles, a plan is herewith submitted for transferring the examination work from the Federal reserve agents to the Federal reserve banks as part of the program of transferring the nonstatutory duties of the Federal reserve agents to the reserve banks.

The plan is in accordance with the principles stated in Mr. Eccles' letter of March 25, 1936, X-9552, that, after transfer to the reserve banks, the bank examination work be conducted as heretofore under the general supervision of the Board of Governors and that all appointments of examiners at the Federal reserve banks, including particularly that of the person in charge of the examination function, continue to be subject to the approval of the Board of Governors.

Briefly stated, the plan herewith proposed provides:

1. Retention of the bank examination department as a separate unit.

2. Transfer of the department from supervision of the Federal reserve agent, where it has been since the early days of the System to the bank under the supervision of a vice president.

   It is anticipated that in most cases the assistant Federal reserve agent formerly in charge of the department will continue in charge as a vice president.

   It is contemplated that, except possibly in the smaller departments, each department will have a chief examiner.

3. Specific approval by the Board of the vice president to be in charge of the examination department and designation of him by the Board as an examiner for the Federal reserve bank.

"It is believed that in the organization set up in the reserve banks the vice president in charge of examination work should be responsible to the president of the bank and not to another vice president or other officer, and that exceptions to this principle should be made only when specifically authorized by the Board of Governors.

"It is believed, also, that, generally speaking, correspondence between the Board and the Federal reserve bank regarding examination work and questions raised in connection with individual member banks should be between the Board and the vice president in charge of the department rather than require that all such correspondence be through the president of the bank. It is expected, of course, that the president
"will keep himself informed of activities and policies of the examination department.

"In the past the Federal reserve agent’s department has had custody of the reports of examinations made by the various agencies, which reports have been made available to certain officers of the reserve bank and to certain designated employees in the credit and discount departments of the bank. It is believed that, if and when the bank examination departments are transferred to the reserve banks, instructions should be issued that the bank examination department continue to have the custody of such reports of examination and that proper safeguards be established in order to preserve the confidential character of such information and to insure that the reports will be made available to officers or employees of other departments only when justified in the performance of their duties.

"After the proposed transfer is made, it is assumed that the present policy of decentralization of examination work under the ultimate responsibility of the Board will continue with the examination work conducted by the Federal reserve banks under general policies adopted by the Board and supervision of the examination departments exercised by the Board’s Division of Examinations."

It was pointed out that the memorandum in its present form apparently contemplated that all correspondence between the Board and the Federal reserve banks regarding examination work and questions raised in connection with individual member banks would be between the Board and the vice president in charge of the examination department, and it was suggested that a procedure similar to that now followed should be substituted, that is, routine matters would be handled with the vice president and communications from the Board as such would be handled with the president of the Federal reserve bank. In this connection it was stated that at the present time it is the practice to handle routine matters with the Assistant Federal Reserve Agent in charge of examinations and policy matters with the Federal Reserve Agent, and that if the above suggestion were adopted essentially the
Chairman Eccles referred to the statement in the memorandum that it is contemplated that, except possibly in the smaller departments, each examination department will have a chief examiner, and stated that he would prefer to change the statement to read as follows:

"It is contemplated that, except possibly in the larger banks, the vice president will be the chief examiner".

At the conclusion of a discussion of the two suggestions referred to above, Mr. Broderick moved that the suggestions be adopted and that the plan outlined in Mr. Paulger's memorandum as thus amended be approved by the Board.

Carried unanimously, with the understanding that advice of the Board's action would not be communicated to the Federal reserve banks at this time but that the plan as approved by the Board would be used by Mr. Broderick and Mr. Paulger as a guide in discussing with the Federal reserve banks the transfer of the examination function to the operating side of the banks, and will be followed in connection with such formal approval as the Board may give at a later date to the reorganization plan submitted by each bank. It was also agreed during a later discussion that the annual budget of each bank for the examination department should be subject to the Board's approval.

Consideration was also given to a memorandum addressed to the Board under date of May 25, 1936, by Messrs. Goldenweiser and Blattner with respect to the statistical and analytical function of the Federal reserve banks. The memorandum, which had been circulated among the members of the Board, read as follows:

"The statistical and research work in the Federal Reserve banks has in the past been under the direction of the Agent, and the Board has from time to time issued general statements of principles with respect to the relation of this activity to the Board's Division of Research and Statistics. The latest of these was issued on August 11, 1926, as X-4646, a copy of
"which is attached.

"With the transfer of these activities to the operating side of the bank, which is contemplated by the current plans, it would appear desirable to adjust the previously stated principles to the new arrangement. We are accordingly submitting herewith a redraft of these principles as well as a proposed letter of transmittal to the President of each Federal Reserve bank.

"Pursuant to the Board's instructions, the Division of Research and Statistics of the Board of Governors made a survey during the year 1935 of the Statistical and Analytical Function of the Federal Reserve banks including the monthly reviews 'in order to determine the costs of the various services, for whom they are rendered, and the personnel engaged in them.' As a result of the survey a report was prepared last autumn, typewritten copies of which were given to Governors Eccles and Szymbczak. Mimeograph copies with figures slightly revised are now being prepared for the new Board members.

"Expenditures for economic services in the Federal Reserve banks averaged $480,000 annually during the years 1930-1934. Expenditures for 1935, not including contributions to the retirement fund, were $437,116. The expenditure for 1935 analyzed by groups of banks on the basis of those for whom the services were rendered was as follows:

<table>
<thead>
<tr>
<th>Activities producing information for use:</th>
<th>New York at banks</th>
<th>5 intermediate banks</th>
<th>6 small banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of Board of Governors</td>
<td>$25,724</td>
<td>$9,579</td>
<td>$5,651</td>
</tr>
<tr>
<td>Within F. R. banks</td>
<td>68,324</td>
<td>18,517</td>
<td>5,410</td>
</tr>
<tr>
<td>Outside banks and Board:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Monthly reviews</td>
<td>12,687</td>
<td>8,888</td>
<td>4,077</td>
</tr>
<tr>
<td>(b) Other</td>
<td>9,661</td>
<td>7,833</td>
<td>1,134</td>
</tr>
<tr>
<td>Total</td>
<td>$116,396</td>
<td>$44,617</td>
<td>$16,272</td>
</tr>
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</table>

1/ 5 intermediate banks: Chicago, San Francisco, Philadelphia, Boston, Cleveland.

2/ 6 small banks: St. Louis, Kansas City, Dallas, Minneapolis, Richmond, Atlanta.

"It is the feeling of this Division that the monthly reviews published by the banks have a considerable public relations and goodwill value to the System, and this view appears to be shared by many responsible officers in Federal Reserve banks. It is, therefore, recommended that the Board at this time take no action toward discontinuance of the reviews, but that this Division do further work in trying to improve them or to find a better substitute."
"Statistical services in the banks must be adequate to supply information needed by the Board of Governors and at the same time be useful to the directing officials of the bank in connection with problems concerning both current operations and Federal Reserve policies. In some banks this end has been substantially attained, while in many others it has not. Outstanding examples of the first class are the New York, Philadelphia, and Minneapolis banks in which the managing officials of the banks have leaned heavily on these services to provide them with statistical and economic data to assist in the formulation of policies. It is particularly desirable for the Board's staff to cooperate with those banks in which improvements in this connection can and should be made. The problem is largely one of personnel.

"We wish, therefore, to recommend that the Board authorize this Division to cooperate with the banks in improving their statistical services and in making them more efficient and, if possible, more economical. At some banks the personnel needs to be strengthened and at others the usefulness of existing personnel should be increased."

"PRINCIPLES GOVERNING RESEARCH, STATISTICAL, AND PUBLICATION ACTIVITIES OF THE FEDERAL RESERVE BANKS"

"Scope and purpose"

"The purpose of the work of the research and statistical divisions of the Federal Reserve banks is to collect and digest information bearing on the problems with which the Federal Reserve System is confronted, either as a matter of current operation or as the basis of Federal Reserve policies.

"These divisions should provide a necessary service to the officials of the banks and to the Board of Governors of the Federal Reserve System and should also be useful to the general public. Owing to the joint usefulness of these services, the Board expects its Division of Research and Statistics to keep in close touch with the activities of similar departments at the Reserve banks and expects full cooperation in the System's work in this field.

"When a new project in the research and statistical field is in contemplation at a Reserve bank, it should be worked out in cooperation with the Board's Director of Research and Statistics, except as to projects of small scope which involve no considerable expense. From time to time the Director of the Board's Division of Research and Statistics may find it necessary to request the cooperation of one or more Federal Reserve banks on research studies.

"Publications"

"The Board wishes to continue the present practice under
"which all publications of the Federal Reserve banks dealing with matters of more than local interest are submitted to the Board of Governors and issued only with the approval of the Board.

"Budget and personnel"

"The budget of the Statistical and Analytical Function should be one of the separate divisions of the usual annual budget of each bank submitted for the general information of the Board.

"It is also the Board's desire that its Division of Research and Statistics be consulted when a person is being considered by a bank for a position of a supervisory character in research and statistical work."

During a discussion of the memorandum the suggestion was made that the statement of principles should provide that the budget for statistical and analytical work at the respective Federal Reserve Banks should be subject to approval by the Board and that the principal personnel in the research and statistical divisions should be employed only after approval by the Board.

At the conclusion of the discussion, the two recommendations contained in Mr. Goldenweiser's memorandum were approved unanimously with the understanding that the statement of principles governing research and statistical activities of the Federal Reserve Banks would be amended to provide for approval by the Board of principal personnel of the research and statistical divisions of the respective Federal Reserve Banks and of the annual budgets of the banks for statistical and analytical work, that the statement of principles as thus amended will be used by Messrs. Broderick, Goldenweiser and Blattner in discussing the transfer of the research and statistical activities to the operating side of the Federal Reserve Banks; and that the amended statement of principles will be followed in connection with such formal approval as the Board may give at a later date to the reorganization plan submitted by each Federal Reserve Bank.

The meeting then recessed and reconvened at 2:45 p.m. with the same attendance as at the morning session except that Messrs. Paulger and Blattner were not present and Mr. Bradley, Assistant Chief of the
Division of Security Loans, was in attendance.

At the request of the Chairman, Mr. Parry reviewed the effects of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and the revised supplement to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, as well as the trends in the securities market since the new margin requirements prescribed in the revised supplement to Regulation T and the supplement to Regulation U became effective. He expressed the opinion that the recent reaction in the market was to be expected after the long period of rise in market prices which had preceded, and that the reaction was due to factors other than the increase in margin requirements. He also said that while the increased margin requirements may have resulted in some decrease in the amount of business handled in foreign offices of American brokers, the loss was not a serious one. Mr. Parry stated further that he believed the survey now being made by the New York Stock Exchange of the status of margin accounts on the books of its members will show that, while a substantial portion of the accounts is restricted, there is a large total amount of unused free balances in other accounts which is a strong indication that the inactivity in the market is due to causes apart from the margin requirements prescribed in the Board's regulations.

Upon inquiry as to whether there was any sufficient reason why the Board should reduce existing margin requirements, Mr. Parry reviewed the arguments which had been advanced for a reduction and stated that,
in his opinion, they did not constitute sufficient grounds for action by the Board at this time.

Mr. Goldenweiser stated that when the Board abandoned the statutory formula for margin requirements it undertook to make more frequent changes in margin requirements to meet changing conditions but that he felt action should be taken by the Board only when it was indicated that a change would be in the public interest.

During a general discussion of the reasons which had been advanced for a reduction in margin requirements, Chairman Eccles stated that he had received a letter from Mr. Ransom, who was still absent because of illness, in which he advised that he was not impressed by the reasons which had come to his attention for a reduction in margin requirements and that before the Board took action changing existing requirements he would like to have an opportunity to state his views on the matter.

At the conclusion of the discussion, it was agreed unanimously that action on the question of a change in margin requirements should be deferred for the time being.

Mr. Parry stated that there were several technical amendments to Regulations T and U which might be made by the Board although none of them was of a particularly urgent character.

It was understood that Mr. Parry would prepare a memorandum setting forth the proposed amendments and the reasons therefor and that, after the memorandum had been considered by the senior members of the staff, it would be submitted to the members of the Board for consideration prior to discussion at an early meeting of the Board.
There was a further discussion of the selection of Class C directors of the Federal Reserve Bank of Chicago, but no action was taken.

Reference was made to the decision made by the Federal Open Market Committee at its recent meeting to continue in effect the existing formula for the allotment of securities in the open market investment account among the twelve Federal reserve banks, and it was pointed out that this action was taken by the Committee with the understanding that there would be obtained from each Federal reserve bank at quarterly intervals reports showing the nature and amount of any unusual charge-offs which such bank anticipates will be made during, or at the end of, each calendar year, and that the Board of Governors should endeavor to bring about the observance of a uniform policy among the Federal reserve banks with reference to such charge-offs.

Mr. Smead was requested to prepare a telegram to the Federal reserve banks asking that they advise promptly of any charge-offs which they proposed to make during the current year in order that the Board may determine the ratio of the expenses, dividends and charge-offs of each bank to the total expenses, dividends and charge-offs for all Federal reserve banks as a basis for the allotment of securities in the System open market account on June 15, 1936.

The Secretary presented a draft of letter to the Deputy Chairman of the Federal Reserve Bank of San Francisco, reading as follows:

"This will acknowledge receipt of your letter of May 29 advising the Board that, at a meeting of your Board of Directors held on May 28, President Day's salary was fixed at $23,000 per annum. Receipt is also acknowledged of the resolution adopted by your Board of Directors with respect to the salary of Mr. Day.

"In accordance with the request contained in the last paragraph of your letter, there is inclosed, for the confidential information of your Board, a list of the Presidents and
"Vice Presidents of all Federal Reserve banks, together with their approved annual salaries."

After a brief discussion the letter was approved unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Parry and Bradley 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 June 2, 1936, were approved unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated May 27, 1936, from Mr. Wyatt, General Counsel, recommending the transfer of Miss Helen V. Dolan, a stenographer in the Division of Examinations, to the office of General Counsel, with no change in her present salary at the rate of $1,620 per annum, effective immediately. Mr. Paulger, Chief of the Division of Examinations, had noted on the memorandum his concurrence in the recommendation.

Approved unanimously.

Letter to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of May 16, 1936, quoting a resolution adopted by the Board of Directors
of the Federal Reserve Bank of Chicago at its meeting on May 15, 1936, relating to compensation and expenses of directors. Pending further consideration of the subject of fees and compensation of the directors of the Federal Reserve banks, the Board will interpose no objection to payment of fees and allowances to members of the Board of Directors of the Federal Reserve Bank of Chicago in accordance with the above mentioned resolution.

Approved unanimously.

Thereupon the meeting adjourned.

Approved: 

[Signature]

Chairman.

[Signature] Secretary.