

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 26, 1936, at 10:30 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, 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. Gardner, Research Assistant in the Division of Research and Statistics

Mr. Ransom made the following report for the information of the Board:

"Yesterday afternoon about 4:55 I had a call from the Secretary of the Treasury who requested me, if I was available, to come over to his office for a few minutes. When I arrived Assistant Secretary Wayne Taylor was with him, and Mr. Herbert Feis of the State Department was just leaving.

"The Secretary stated that he wished to inform me of some negotiations which had been in progress over a period of three or four days between the Government of the United States and Great Britain and France; that these negotiations had been wholly between the Treasuries of the three countries, the central banks not being consulted or brought into the discussions; and that these discussions had led to an understanding that the French would declare a gold embargo immediately and that the three Governments would release simultaneously almost identical statements of the positions which they were taking in regard to the currencies of the respective countries. He outlined briefly what was later disclosed in the press release and the prepared statement of the Treasury. He stated that during these negotiations he had felt the necessity for using the technical knowledge and experience of some of the men on the staff of the Federal Reserve Bank of New York and had communicated this wish

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"to President Harrison, as a result of which Mr. Williams and Mr. Knoke came to Washington and participated in these discussions; that he had told Mr. Harrison the request must be regarded as most confidential; that Mr. Harrison had asked permission to report the matter to his board; that the Secretary had told him he did not want him to do so; that Mr. Harrison had then said he felt he should report the matter to his own foreign committee and had been quite insistent on this point; and that the Secretary told him he did not approve and used the expression that he had sworn Mr. Harrison to secrecy in the matter.

"At this point Mr. Landis of the Securities Exchange Commission came in and the Secretary went over briefly what he had already covered with me. He referred to the recent loss of gold by France and the general disturbed condition in the French political situation. He said that he thought the step was one in the interest of world peace and one which he considered absolutely essential to the maintenance of orderly Government in France which he did not think would continue very long under existing conditions. He stated that he would be glad to appear before the Board of Governors of the Federal Reserve System on Saturday morning to explain the matter and discuss the matter with the Board if there was a feeling that the Board would like him to do so. I told him that I would convey this information to the Board on Saturday morning and would, in the meantime, communicate what he had told me to Mr. Szymczak, the only other Board member in the city last evening. He suggested that he would like to call Chairman Eccles by 'phone while I was in his office and this he did, going over the matter briefly with Mr. Eccles. There was a loud speaker attachment which enabled me to hear both sides of the talk. Mr. Eccles expressed agreement in principle with what they were seeking to accomplish and inquired specifically what Great Britain had agreed to do and whether there was any binding agreement on the British to maintain the pound at its present parity. The Secretary said that there was nothing more than the gentlemen's agreement which was to be released during the evening supplemented by some memoranda as to what objectives were being sought and that he did not think the British would resist any effort that was made to maintain the pound at its present parity. Mr. Eccles was quite insistent that this seemed to him an essential factor in the problem and suggested that it should be specifically agreed to in some

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"way but finally acquiesced in the Secretary's statement that a gentlemen's agreement was possibly all that could be insisted upon at the moment. During the conference the Secretary telephoned Mr. Gaston suggesting that he give an intimation to the press that there would be an important release during the evening. Apparently Mr. Gaston did not concur. The Secretary then suggested that he (Mr. Gaston) be in his office during the evening and later suggested that he go so far as to tell the press that he would call them later in the evening. He stated to both Mr. Landis and me that the matter was still in a confidential stage and that it had to be so regarded, although he stated the matter was over 90% completed. He stated that the language had already been approved by the three Governments and that there was only a minor detail that was still under consideration with the British which he anticipated would be shortly cleared up. I asked him if there was any action he desired the Board to take in relation to the matter or anything he wanted us to do or any information that he would desire us to obtain for him. He stated that there was not, and that, as he expressed it, he merely desired our moral support. This ended the conference.

"At that time, as I found later, the final edition of the Evening Star was on the street with a story of the substance of the agreement and a definite statement that parleys had been in progress for several days." (At this point Mr. Thurston exhibited the Star report and read portions of it. The clippings containing this report have been placed in the Board's files). "The Secretary stated that he would be glad to send over a copy of the press release which would come out in two or three hours at the latest. The Secretary also requested his secretary to telegraph Mr. Eccles a copy of the press release. I asked that he send over enough copies for all of the members of the Board and told him that I would undertake to see that they were delivered.

"Returning to the offices of the Board at about six o'clock I requested Mr. Morrill and Mr. Thurston to stand by to get these releases and we communicated with Mr. Szymczak's hotel, ascertaining when he would be there, so that a copy could be delivered to him. Later in the evening Mr. Morrill and Mr. Thurston, ascertaining that a press conference was in progress in the Treasury, made a request for copies of the press release and obtained two copies at about eight o'clock by sending a messenger to the Treasury for them, and then sent these copies to Mr. Szymczak and me. At 9:20

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"I received under confidential cover from the Treasury a copy of the press release which had been addressed to the Washington Building, then forwarded to me at the Carlton Hotel, and then to the Shoreham Hotel, addressed to me as 'Acting Governor' of the Federal Reserve Board."

Mr. Ransom then left the meeting to answer a telephone call from President Harrison, and upon his return reported as follows:

"Mr. Harrison called and stated that he had been very much embarrassed during the past few days in having been called up by the Treasury for assistance in this situation and having been sworn to secrecy. He said he had insisted that he should be free to advise his board and that they had even gone so far as to say he should not tell Owen D. Young; that finally yesterday afternoon the matter was coming so near to a conclusion and he was feeling so personally embarrassed by the situation that he called up the Secretary of the Treasury and informed him that he felt he should insist that the Secretary advise the Board of Governors and that if the Secretary did not feel that he should advise the Board he should release Mr. Harrison from his oath of secrecy and permit him to report to the Board of Governors; that when he called the matter to the attention of the Secretary it was obvious to him that the whole thing had been an over-sight on the Secretary's part; and that on Mr. Harrison's insistence the Secretary said he would communicate the matter to the Board of Governors through the Vice Chairman.

"President Harrison volunteered the information that the situation was very quiet in New York; that he had called up the dealers in foreign exchange and requested them to limit their activities; and that the whole situation seemed to be well in hand."

At this point Messrs. Thurston, Goldenweiser and Gardner 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:

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Memorandum dated September 24, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mrs. Gunhild Anderson Kenny as a junior research assistant in the Division, with salary at the rate of \$2,600 per annum, effective as of the date upon which she enters upon the performance of her duties. The memorandum stated that Mrs. Kenny is now a member of the Civil Service Retirement System and would retain her membership in that retirement system if the Board should approve her appointment.

Approved unanimously.

Letter to Mr. Gibbs Lyons, Deputy Comptroller of the Currency, reading as follows:

"This refers to your letter of September 18, in which you refer to the Board's letter of June 30 advising the Comptroller of the appointment of Mr. William John Rusch as Chief of the Federal Reserve Issue and Redemption Division for the period July 1 to September 30, at a salary of \$375 per month, and recommend that the Board either give Mr. Rusch a permanent appointment or, if the Board is unwilling to make his appointment permanent, extend his temporary appointment for such further period after September 30 as the Board deems advisable.

"The Board has deferred action on your recommendation that Mr. Rusch be given a permanent appointment until such time as your office reaches a decision with respect to the transfer to your payroll of the employees of the Federal Reserve Issue and Redemption Division, to which reference was made in its letter of April 14, 1936.

"The Board has, however, in accordance with your recommendation, extended Mr. Rusch's appointment as Chief of the Federal Reserve Issue and Redemption Division on a temporary basis for the period October 1 to November 15, and has fixed his salary during the period of his temporary appointment at the rate of \$375 per month."

Approved unanimously.

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

"This refers to your letter of September 9, in which you ask for advice as to the difference in the status, functions, and duties of an Assistant Federal Reserve agent and an Alternate Assistant Federal Reserve agent.

"In approving the transfer of the non-statutory duties of the Federal Reserve agent to the Federal Reserve bank the Board contemplated that the primary function of an Assistant Federal Reserve agent would be in connection with the issuance and retirement of Federal Reserve notes, and that when an Assistant Federal Reserve agent was not engaged on work in connection with the issuance and retirement of such notes he would be detailed by the Federal Reserve agent, with the approval of the President, to perform other work in the bank not inconsistent with his duties as Assistant Federal Reserve agent. In the absence of the Assistant Federal Reserve agent an Alternate Assistant Federal Reserve agent will be expected to perform the duties of the Assistant Federal Reserve agent with respect to the issuance and retirement of Federal Reserve notes. He will not be expected to perform any such duties when the Assistant Federal Reserve agent is present at the bank.

"While the interpretation of the by-laws of a Federal Reserve bank is ordinarily a matter for the determination of the bank itself, it may be said in this case that the now existing by-laws of your bank appear to be specific in providing that the Assistant Federal Reserve Agent (and not the Alternate Assistant Federal Reserve Agent) shall act as a member of the Executive Committee in the absence of the Federal Reserve Agent."

Approved unanimously.

Letter to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to previous correspondence with regard to the question whether the removal of the branch of the American Trust Company, San Francisco, California, from 1201 Broadway to 1399 Broadway, Burlingame, California, constitutes the establishment of a branch at the new street

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"address which would require the Board's approval under the provisions of section 9 of the Federal Reserve Act.

"In Mr. Sonne's letter to the Board of June 16, 1936, it was stated that the branch in question was established on January 18, 1926, at 1201 Broadway, Burlingame, California; that it was operated at this location continuously from such date through Saturday, February 29, 1936, on which date it moved to the new location, 1399 Broadway, Burlingame, California, opening for business Monday morning, March 2, 1936; that there was no interruption in the business of the branch in connection with its removal; that there has been no change in the character of the business conducted by the branch at the new location; that there are no new elements of competition with other banks resulting from the change in location; and that the branch will continue to serve the same customers as heretofore to better advantage. While Mr. Sonne's letter is not entirely clear, it is understood that Broadway-Burlingame (apparently a subdivision in the city of Burlingame) is located more than a mile from the business center of Burlingame proper; that the business district of Broadway-Burlingame is confined to Broadway Avenue, extending four blocks thereon; and that the former location of the branch was at the extreme edge of the Broadway-Burlingame business district while the new location is in the heart of it. In this connection, it appears that the branch has not moved into the business district of Burlingame proper, but the new location is substantially in the same business district as theretofore. It is also noted that the removal of the branch in question was effected in accordance with the laws of the State of California and with the approval of the Superintendent of Banks and that Counsel for your bank is of the opinion that the removal of the branch in question could not properly be considered as the establishment of a new branch office within the meaning of the applicable provisions of the laws of the State of California.

"On the basis of the facts stated above the Board has reached the conclusion that the removal of such branch to the new street address does not constitute the establishment of a branch within the meaning of the applicable provisions of section 9 of the Federal Reserve Act and, therefore, the Board's approval is not required.

"The Board's conclusion in this case should not be considered as having general application to all cases where an out-of-town branch of a State member bank moves to a new street address in the same city. Therefore, in any future

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"case where it comes to your attention that a State member bank in your district has changed or intends to change the location of an out-of-town branch, whether such change is to a new street address in the same city or not, it will be appreciated if you will advise the Board fully as to all the facts and circumstances involved in order that the Board may determine whether such removal constitutes the establishment of a branch within the meaning of section 9 of the Federal Reserve Act, thereby requiring the Board's approval."

Approved unanimously.

Letter to Mr. Strater, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of September 12, 1936, inquiring whether the Board concurs in the expression of opinion regarding section 4(e) of Regulation T, contained in Mr. L. R. Rounds' letter of September 11, 1936, to Messrs. Singer, Dean and Scribner of Pittsburgh, a copy of which you enclosed.

"Mr. Rounds' opinion appears to be a correct interpretation of Regulation T and of Ruling 19 thereunder, in their application to the situation referred to by Messrs. Singer, Dean and Scribner."

Approved unanimously.

Letter to Mr. Jahu W. Honnor, Jr., Chester, Pennsylvania, reading as follows:

"Receipt is acknowledged of your letter of September 13, 1936, regarding the legality of a social club for children which you contemplate organizing.

"It is understood that according to your plan the membership of this club would consist of children between the ages of 6 and 21 who would be required to pay certain weekly dues; that upon reaching the age of 21, each member will receive the money he has paid as dues to the club, plus interest thereon at the rate of 3 per cent per annum; and that the dues received will be invested at a profit in order to provide for the carrying expenses of the club and the pay-

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"ment of interest on dues.

"There appear to be no provisions of the Federal banking laws which would affect the organization of a club such as that which you have in mind, with the possible exception of the provisions of section 21 of the Banking Act of 1933 which prohibits the receipt of deposits by nonbanking institutions except under certain conditions. This section of the law provides that it shall be unlawful -

'For any person, firm, corporation, association, business trust, or other similar organization to engage, to any extent whatever with others than his or its officers, agents or employees, in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization (A) shall be incorporated under, and authorized to engage in such business by, the laws of the United States or of any State, Territory, or District, or (B) shall be permitted by any State, Territory, or District to engage in such business and shall be subjected by the law of such State, Territory, or District to examination and regulation, or (C) shall submit to periodic examination by the banking authority of the State, Territory, or District where such business is carried on and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and under the same conditions as required by the law of such State, Territory, or District in the case of incorporated banking institutions engaged in such business in the same locality.'

"Whether this statute would be applicable to the club which you plan to organize would, of course, depend upon whether you would be regarded as engaged 'in the business of receiving deposits' in any of the manners described by the statute. However, this statute provides criminal penalties of fine or imprisonment for the violation of its provisions and, therefore, the determination of the question whether any particular organization is subject to its provisions is a question which appears to be properly within

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"the jurisdiction of the Department of Justice. Accordingly, the Board feels that it would not be appropriate for it to undertake to express an opinion as to whether the statute referred to would be applicable to the organization of your club.

"If you have not already done so, it is suggested that you may wish to communicate with the proper authorities of the State of Pennsylvania with respect to whether the organization of the club to which you refer would be affected by any of the laws of that State."

Approved unanimously.

Letter to Mr. B. R. Kennedy, Director, Division of the Federal Register, The National Archives, transmitting certain information regarding the Board's regulations, filed with the Division of the Federal Register in accordance with the provisions of section 11 of the Federal Register Act, which was necessary in order that such documents may be placed in proper form for publication.

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. Mowbray
Secretary.

Approved:

Frank A. Mowbray
Vice Chairman.