

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 28, 1936, at 11:45 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. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics (last part of meeting)
Mr. Gardner, Research Assistant in the Division of Research and Statistics (last part of meeting)

Mr. Ransom reported that First Vice President Sproul of the Federal Reserve Bank of New York had advised him by telephone at 11:25 a.m. that the bank had received a cablegram late on Saturday, September 26, 1936, from the Bank for International Settlements requesting the Federal Reserve Bank of New York to make advances to it up to 98% against gold bars having an approximate value of \$20,000,000 which would be shipped to the New York bank next Wednesday on behalf of a central bank. He said that Mr. Sproul had called attention to the fact that the Federal Reserve Bank of New York has authority from the Board dated November 28, 1934, to make advances of not to exceed \$50,000,000 outstanding at any one time to the Bank for International Settlements secured by refined gold bars of recognized refiners and assayers in

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transit to New York or earmarked for the New York bank abroad free for export pending shipment to New York.

Mr. Ransom said that he inquired of Mr. Sproul why he was calling him regarding the matter if the New York bank already had authority to make such advances. He stated that Mr. Sproul informed him that he had called for two reasons, first, because the New York bank did not want to act on authority which was two years old without bringing the matter to the Board's attention and, second, because of the possibility that such transactions might come within the jurisdiction of the Federal Open Market Committee. In this connection he said that Mr. Sproul had indicated that it was the view of the New York bank that the question should be decided as not being an open market transaction within the terms of the law or the Board's regulations. Mr. Ransom stated further that Mr. Sproul had said that it was the opinion of the New York bank that the request for an advance was being made on behalf of the Swiss National Bank for the purpose of enabling that institution to support the Swiss franc and keep it within whatever range it might think necessary, and that the urgency in the matter arose from the fact that the institution needed to have the funds made available as soon as possible and to know promptly whether or not to ship the gold.

There was some discussion during which Mr. Morrill was asked to request Mr. Sproul by telephone to forward to the Board a telegram ad-

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vising the Board fully with regard to the proposed advances on gold in order that complete information might be available as a basis for action by the Board. Mr. Morrill withdrew from the meeting for this purpose but returned after a brief absence and reported that Mr. Sproul had said that he would be glad to prepare such a wire immediately.

Mr. Ransom invited Messrs. Goldenweiser and Gardner into the meeting at this point and requested them to express their views in the matter.

Mr. Goldenweiser stated that he felt unequivocally that the Federal Reserve Bank of New York should make such advances to the Bank for International Settlements. He added that, in view of the monetary understanding reached between this country, Great Britain and France at the close of last week, he believed that a failure to make such advances at this time might be distinctly harmful.

Mr. Gardner said that in his opinion the proposed advances were purely for the purpose of facilitating the workings of the exchange market and were definitely an element in the recent three power accord. He said also that 98% of the dollar value of gold bars was the amount which would be paid by the United States Mint or Assay Office immediately upon receipt of the gold.

Mr. Goldenweiser expressed the view that loans of this character were for the purpose of meeting the needs of a particular bank and

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were not in fact open market transactions. He stated that a loan such as requested by the Bank for International Settlements was in keeping with the traditional policy of central banks to exchange gold for credit that there was nothing objectionable from this country's point of view to the granting of the proposed loan which in effect enabled the central bank to obtain promptly the proceeds from the sale of the gold in a case where speed was important, and that such loans had the effect of making the proceeds of the sale of gold available immediately rather than making it necessary for the central bank to wait until physical shipment of the gold had been completed.

Mr. Wyatt stated that, while the pertinent provisions of the statute were not entirely clear, he thought that the Board could approve the transaction without passing on the question as to whether the Federal Open Market Committee had any jurisdiction in the matter.

Mr. Morrill raised the question as to whether the Board would desire to bring the matter to the attention of the Treasury Department before taking action as an evidence of the Board's desire to cooperate in every way possible, particularly in view of the fact that the transaction was doubtless incidental to the three power understanding concluded on September 26, 1936.

Mr. Ransom pointed out that under the existing practice of the Board a record of this transaction might be included in the record of policy actions kept pursuant to the provisions of section 10 of the

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Federal Reserve Act. He said that he felt that it was absolutely essential that the Board have all the facts before taking action.

Mr. Morrill stated that in such case it would, of course, be necessary to give the reasons underlying the action taken and in this connection pointed out that President Harrison of the Federal Reserve Bank of New York had indicated informally some time ago that he felt that individual loans made to foreign banks or bankers were in principle not different from loans made to domestic banks and that there was considerable doubt as to whether a record of the action taken in connection with individual foreign loans should be included in the policy record and subsequently published in the Board's annual reports.

Mr. Morrill thereupon read the following telegram which had just been received from Mr. Sproul:

"Referring to our telephone conversations this morning following cable received Saturday afternoon from Bank for International Settlements: 'On the basis of the agreement and on the terms and conditions set out in your cable No. 247 dated November 28, 1934 we are on behalf of a central bank shipping to you next week gold bars to an approximate value of \$20,000,000 against which we shall request you to make to us advances daily according to our requirements up to a total of 98% of the value of the gold. We shall probably require first advance next Wednesday. Kind location and total fine ounces name and date of sailing of steamer to follow. If any objection please cable urgently today.'

"To which we replied this morning as follows: 'Your No. 77 received too late Saturday shall cable you later today.'

"Our cable No. 247 dated November 28, 1934, referred to above set forth terms and conditions under which we were prepared to receive requests for advances against gold in transit to New York or earmarked for us abroad pending shipment as authorized by Board in its telegram of same date.

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"While no time limit was placed on authority granted by Board we thought it necessary in view of time which has elapsed since authority was granted and changes since made in law to take up matter with you.

"It is our understanding that purpose of advances would be to help foreign central bank concerned to maintain orderly market in currency of its country by operations in dollars during present unsettled period and we believe, as we are informed the Treasury Department believes, that it is desirable to facilitate achievement of such purpose. We would propose therefore to advise Bank for International Settlements that we will proceed in this case under terms of our cable No. 247 except that we would confine advances to gold actually in transit to us thus avoiding the question of discriminating between countries in which we would or would not accept pledge of earmarked gold as security. Briefly terms are: Amounts advanced to be not more than 98% of dollar value of gold pledged interest on advances to be at our discount rate, advances to mature upon arrival of gold in New York, payment of advances and all charges and expenses to be made out of proceeds of sale of gold to U. S. Treasury."

Mr. Ransom inquired whether any member of the staff had any suggestions to make with regard to the action which should be taken in the matter, and it was suggested that the Board, for the reasons stated in the telegram, might wish to approve the proposal contained therein but with the understanding that before so advising the New York bank inquiry would be made of the Treasury Department as to whether it knows of any reason why the transaction should not be approved.

Mr. Clayton reported that he had called Chairman Eccles and Mr. McKee by long distance telephone at Ogden, Utah, and Los Angeles, California, respectively, and, among other things, he had advised them regarding this matter and they had made no objection to the approval of the loans.

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At the conclusion of further discussion the Board, by unanimous vote, approved the proposal contained in the foregoing telegram received from Mr. Sproul that the Bank for International Settlements be advised in response to its cablegram of September 26, 1936, that the Federal Reserve Bank of New York will proceed on request of the Bank for International Settlements to make daily advances to such bank, according to its requirements up to a total of 98% of the value of gold bars having an approximate value of \$20,000,000 being shipped to the New York bank this week on behalf of a foreign central bank, under the terms of the New York bank's cablegram No. 247 dated November 28, 1934, to the Bank for International Settlements and the Board's telegram to the New York bank of the same date, except that the reserve bank would confine advances to gold actually in transit to it with the understanding that amounts advanced will be not more than 98% of the dollar value of gold pledged, interest on the advances to be at the discount rate of the New York bank, advances to mature upon arrival of gold in New York, and payment of advances and all charges and expenses to be made out of the proceeds of the sale of gold to the United States Treasury.

The Board also approved, by unanimous vote, participation in such loans by the other Federal reserve banks.

In this connection it was understood that the Secretary would make inquiry informally of Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, or, in his absence of Mr. Archie Lochhead, Manager of the Stabilization Fund, as to whether the Treasury knew of any reason why the Board should not approve the proposed transaction and, if not, that the Secretary would advise the Federal Reserve Bank of New York and the other

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Federal reserve banks of the action taken.

The Secretary later reported that after such inquiry he had been advised by both Mr. Taylor and Mr. Lochhead that the matter had been looked into in the Treasury and discussed with Secretary Morgenthau and that the Treasury saw no objection to the proposed transactions.

At this point Messrs. Thurston, Wyatt, 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:

Telegram to Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of September 15 regarding a proposed special contribution to the Retirement System by the Federal Reserve Bank of Kansas City of \$2,729.68 for the purpose of increasing the retirement allowance which Mr. T. Gordon Sanders will receive on retirement for total disability effective October 1, 1936, from \$723.96 to \$900.00 per annum.

"After carefully reviewing the question the Board is of the opinion that the Federal Reserve banks would be justified in certain cases in making lump sum contributions to the Retirement System for the purpose of supplementing the retirement allowances employees are entitled to under the rules and regulations of the Retirement System upon retirement for

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"total disability. It believes, however, that such contributions should not exceed an amount equal to six months' salary. Accordingly, it has authorized the Federal Reserve banks in their discretion to pay to the Retirement System an amount not to exceed six months' salary for the purpose of supplementing the retirement allowance of an employee retired on account of total disability after not less than ten years of service. A copy of the Board's letter authorizing such payments is inclosed."

Approved unanimously, together with a letter to the Presidents of all Federal reserve banks, reading as follows:

"One of the Federal Reserve banks has raised the question as to whether the authority given under the Board's letter, X-9405, of December 27, 1935, to make special contributions to the Retirement System for the purpose of providing supplementary retirement allowances in the case of involuntary separations from the service, is applicable to cases of retirement on account of disability.

"Contributions may be made to the Retirement System in accordance with the authority contained in the Board's letter X-9405 in the case of employees retired on account of disability. However, the limitation at the end of paragraph (a) of the above mentioned letter—that an employee under age 55 may not be granted an annuity of greater actuarial value than he might be granted if he were 55 years of age—would operate to prevent the payment of any special contributions in most cases of retirement on account of disability before age 55.

"Notwithstanding the above mentioned limitation, the Board authorizes your bank in its discretion to pay to the Retirement System, for the purpose of supplementing the retirement allowance of an employee retired for total disability prior to age 55 not to exceed the amount that could be contributed under the authorization contained in its letter, X-9405, if the employee were 55 years of age. Under the Board's authorization, as thus modified, payment to the Retirement System of six months' salary may be made at the discretion of a Federal Reserve bank in the case of any employee retired on account of disability after not less than 10 years of service, regardless of age. As stated in the Board's letter, X-9405, that part of any salary in excess

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"of \$12,000 should be disregarded in determining the maximum contribution that may be made under the Board's authorization."

Thereupon the meeting adjourned.

Chester Mowle
Secretary.

Approved:

[Signature]
Vice Chairman.