

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 30, 1936, at 9:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Davis

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
Mr. Dreibelbis, Assistant General Counsel
Mr. Gardner, Research Assistant in the
Division of Research and Statistics

ALSO PRESENT: Mr. Harrison, President of the Federal Reserve
Bank of New York
Mr. Sproul, First Vice President of the Federal
Reserve Bank of New York
Mr. Logan, Vice President and General Counsel
of the Federal Reserve Bank of New York

At the request of the Chairman the Secretary read the draft of a proposed statement of procedure with respect to foreign relationships of Federal reserve banks as amended at the meeting of the Board on October 29, 1936. The statement was then reread and discussed section by section.

In connection with the first two paragraphs of the statement President Harrison said that the Federal Reserve Bank of New York had never been disposed intentionally to withhold from the Board any information which it should have in connection with the relations of the bank with foreign banks or bankers; that it is the intention of the bank to see that all such information is forwarded to the Board currently; and

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that the officers and directors of the bank would like to work out a procedure which will result in the Board being furnished with all information necessary to the proper discharge of its responsibilities. He expressed general agreement with the first two paragraphs of the memorandum but raised a question as to whether, in view of the use of the phrase "even as a remote possibility" in the requirement of advice to the Board of all relationships which may eventuate in some action, the Federal reserve banks would be under an obligation to send to the Board copies of all correspondence and advise it of every contact with a foreign bank or banker, as it would be impossible to determine always whether or not the correspondence or contact might eventuate in some action. President Harrison expressed the opinion that it would meet the Board's purposes if the procedure contemplated that the banks would advise the Board whenever it appeared that correspondence or contacts, which up to that point had been merely routine or for the purpose of furnishing factual information, may lead to negotiations or action. This point was discussed and the members of the Board agreed to the elimination from the statement of the phrase above quoted.

During a discussion of the section of the statement entitled "Foreign Visitors", Mr. Harrison said that the senior officers of the more important central banks are familiar with the more important changes in the Federal Reserve System effected by the Banking Acts of 1933 and 1935, and that, therefore, it was unlikely that they would undertake to open any negotiations or have any discussions with the Federal Reserve Bank of New York without first presenting the matter in such a way as to

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allow the bank time to obtain permission from the Board to carry on the necessary discussions or to conduct negotiations. He also stated that, while the directors of the central banks would not be expected to be familiar with the relationships between the Federal reserve banks and the Board, they ordinarily would be without authority to have discussions or conduct negotiations when on a visit to this country, and that, should they be sent on a special mission for that purpose, the Federal reserve bank would be advised in ample time to take the matter up with the Board.

In connection with a discussion of the best method to be used in advising the smaller central banks of the existing relationships between the Federal reserve banks and the Board, President Harrison stated that he would be agreeable to advising such banks of the existing relationships and felt that, inasmuch as it is contemplated that the agreements now in effect covering correspondent relationships between such banks and the Federal Reserve Bank of New York will be revised, the desirable procedure would be to call attention to the relationships between the Board and the Federal reserve banks at the time of the renewal of the correspondent agreements.

In connection with the use of the term "conference" in the second paragraph of the section of the statement entitled "Foreign Visitors", President Harrison stated that he would interpret the term as not including informal visits by foreign banks or bankers or local representatives of foreign banks who call at the bank as a matter of courtesy or merely for the purpose of discussing banking and business conditions

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generally. A discussion of this point resulted in changing the paragraph to provide that before arranging a conference which may involve an agreement, understanding or negotiation with a person who may represent a foreign bank, banker or government, permission should be obtained from the Board.

Further discussion resulted in minor changes in other paragraphs of the statement.

It was also decided to eliminate from the statement the section with respect to authority of the Federal Open Market Committee. In this connection, at the suggestion of Mr. Sproul, it was understood that Messrs. Morrill and Wyatt would confer with Vice President Knoke of the Federal Reserve Bank of New York, who is familiar with the operating details of all foreign transactions conducted by the bank, following which a separate statement would be prepared with respect to the authority of the Federal Open Market Committee over relationships and transactions of the Federal reserve banks with foreign banks or bankers.

The statement of procedure with respect to foreign relationships of Federal reserve banks as changed at this meeting reads as follows:

"The Board of Governors has a wide range of responsibility for monetary developments in this country in addition to its duty to exercise special supervision over foreign relationships of Federal reserve banks. To meet its responsibilities it must of necessity, among other things, have complete and current information as early as available with respect to all foreign relationships of Federal reserve banks which may eventuate in some action. Such action may take the form of establishing an account at a Reserve bank or the appointment of a correspondent or the establishment of an agency in a foreign country by a Federal reserve bank; of handling a fund for a foreign correspondent; of a loan on gold, or of an agreement to purchase bills

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"in foreign countries; or of other transactions that need not be enumerated.

"Thus, the Board's duties involve broader questions than mere technical compliance with particular provisions of law. Supervision by the Board of the foreign relationships of the Federal reserve banks involves close cooperation by the banks with the Board with constant recognition of the responsibilities of the Board. The question in each case should not be decided upon narrow grounds such as, for example, whether a certain act does or does not amount to a negotiation and consequently requires prior permission of the Board, but rather whether knowledge of all the facts and circumstances with respect to the particular act or correspondence would be helpful to the Board in the discharge of its responsibilities. Full understanding and cooperation between the Board and the banks upon the basis of this broad principle is essential in the public interest.

"Fiscal agency operations.

"The Board's relation to the operations of the Federal reserve banks as fiscal agents of the United States can best be worked out between the Board and the Treasury on the basis of friendly cooperation, and, therefore, procedure as to such operations is not dealt with in this memorandum.

"Specific situations.

"With the broad principle stated in the introduction to this memorandum as a guide, careful consideration has been given to the question of working out a proper and satisfactory procedure in connection with the establishment and maintenance of foreign relationships by Federal reserve banks with a view to enabling the Board to meet its responsibilities fully and at the same time interfere as little as possible with the normal operations of Federal reserve banks. Accordingly, the following course of procedure is proposed as a basis for discussion.

"1. Foreign visitors

"The difficulty in attempting always to anticipate the nature of a forthcoming discussion or conference with a visitor from a foreign country is understood. It is recognized that a discussion or conference which had been expected to be wholly general in its nature may turn into one contemplating eventual action of some sort, and that awkwardness may result if officers of Federal reserve banks in the midst of a discussion find that they must obtain permission of the Board before pro-

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"ceeding further. This difficulty would be avoided if foreign banks and bankers had a clear understanding of the relationships between, and the responsibilities of, the Federal reserve banks and the Board of Governors.

"Before arranging a conference which may involve an agreement, understanding or negotiations with a person who may represent a foreign bank, banker or Government permission should be obtained from the Board; and as soon as a Federal reserve bank learns that such a person is planning to visit the bank it should notify the Board and give it as much information as it can obtain as to the occasion and purposes of the visit. Unless it is known that the visitor has been informed as to the relations of the Federal reserve banks and the Board the Federal reserve bank should advise him as soon as practicable after learning of his proposed visit.

"If a visit from such a person may involve discussions leading to an agreement or commitment with respect to a particular transaction on the part of a Federal reserve bank, or if in its progress it so develops, permission of the Board should be obtained before proceeding further to conduct such negotiations, unless such negotiations are covered by permission previously granted.

"As soon as possible such Federal reserve bank should file a full report in writing, in accordance with the general principle outlined above.

"2. Negotiations and transactions for which Board should grant blanket permission.

"The Board should grant blanket permission to Federal reserve banks (subject to all the conditions set out in this memorandum) as follows:

a. To establish and open 'one way' accounts for foreign central banks (that is to say, accounts involving deposits with a Federal reserve bank but not involving the establishment or maintenance of any deposits for a Federal reserve bank), but not to extend any credit or enter into any other transaction for which specific permission would be necessary, without first obtaining such permission, provided:

(1) That such account is subject to termination at the request of the Board;

(2) That the agreement be in accordance with a standardized form, such as some particular agreement approved by the Board;

(3) That, if there be any question as to whether the foreign bank is in fact a foreign central bank, the Federal reserve bank in question will confer with the Board upon such

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"subject before proceeding further;

(4) That copies of all correspondence contemplating or relating to the establishment and maintenance of such accounts be currently and promptly forwarded to the Board, it being understood, however, that correspondence relating to routine transactions in an account after it has been established need not be sent to the Board.

b. Subject to the applicable conditions set forth in paragraph 'a', to purchase or sell gold directly from or to a foreign bank or banker.

c. Subject to the applicable conditions set forth in paragraph 'a', to earmark gold or silver, title to which is already held by a foreign bank or banker, for the account of such bank or banker.

"3. Negotiations and transactions for which Board should require Federal reserve banks to obtain prior specific permission.

"With respect to the following classes of transactions, except as otherwise authorized, no commitment, direct or contingent, should be made to any foreign bank or banker and no steps should be taken which may be expected to lead to a commitment, without first submitting full information regarding the proposed transaction to the Board for its consideration and obtaining its permission, regardless of whether other relationships have previously been established with the permission or approval of the Board. In this connection, a Federal reserve bank should, as quickly as possible after the receipt of any communication relating to such transactions, furnish copies thereof to the Board for its information and obtain permission from the Board to proceed with the negotiations or to enter into the agreement, as the case may be.

a. The extension of credit in any form by a Federal reserve bank;

b. The creation of any deposit by a Federal reserve bank in a foreign country and the disposition of such deposits;

c. The purchase or sale by a Federal reserve bank of bills from or to a foreign bank or banker, or in a foreign country;

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"d. The purchase by a Federal reserve bank of bills or securities in this country for the account of a foreign bank or banker with an agreement by the reserve bank to repurchase or with a guarantee, indorsement or other liability of such Federal reserve bank;

e. The earmarking of gold in a foreign country for a Federal reserve bank.

"4. Other situations.

"With respect to any matter not covered in the grant of blanket authority or if there be any doubt as to whether such matter is covered in such grant of blanket authority, the procedure applicable to transactions referred to in paragraph 3 should be followed."

Upon motion by Mr. McKee it was agreed that copies of the above statement should be sent to the presidents of all Federal reserve banks with a request to President Harrison that it be placed on the program for consideration at the next Presidents' Conference and that the statement with respect to the Federal Open Market Committee, when prepared, should be placed on the program of the forthcoming meeting of the Federal Open Market Committee.

Thereupon the meeting adjourned.

Approved:



 Chairman.



 Secretary.