

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 21, 1937, at 2:45 p. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 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. Goldenweiser, Director of the Division
 of Research and Statistics
 Mr. Parry, Chief of the Division of Security
 Loans
 Mr. Dreibelbis, Assistant General Counsel
 Messrs. Thomas, Currie and Blattner,
 Assistant Directors of the Division of
 Research and Statistics
 Messrs. Gardner, Garfield, Longstreet and
 Piser, Senior Economists in the Division
 of Research and Statistics
 Mr. Edmiston, Junior Economist in the Division
 of Research and Statistics

There was presented a letter dated January 20, 1937, from Vice President Knoke of the Federal Reserve Bank of New York, reading as follows:

"There are enclosed herewith, for the information of the Board, copies of Bank for International Settlements cables Nos. 10 and 11 and of our cable to Bank for International Settlements No. 16, all referring to the possibility of the Bank for International Settlements' investing some of its funds in this market in bankers acceptances and certain Argentine Treasury notes.

"As it happened, the inquiry of the Bank for International Settlements did not lead to a request that we purchase acceptances for its account, in accordance with the terms and conditions of that account, including our guarantee of payment at maturity and our agreement to purchase the acceptances, or to sell them in the market, before maturity if so requested. The incident, however, indicated to us the desirability of confirming our understanding of that part of the procedure recently established with respect to the foreign relationships of Federal reserve banks, which has to do with the purchase of bills or securities in this country, for the account of a foreign bank.

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"The terms and conditions of the account which the Bank for International Settlements maintains with us, as set forth in our letter of May 12, 1930 (copy of which was forwarded to the Board on August 11, 1933), which recites the usual terms and conditions approved by the Board, provide for the purchase of bankers acceptances in this market for account of the Bank for International Settlements with our guarantee of payment at maturity and our agreement to repurchase the acceptances or to sell them in the market, if requested, at any time before maturity. We have assumed that we could proceed in accordance with such terms and conditions, where they exist, to execute orders for the purchase of bankers acceptances for the account of foreign central banks. In other words, we have assumed that, at present and in the case of foreign central banks now maintaining accounts with us, under terms and conditions approved by the Board, such transactions are 'otherwise authorized' as provided in the preamble of paragraph 3 of the statement of procedure (X-9774) and do not, therefore, require prior specific permission from the Board under the terms of sub-paragraph d of paragraph 3 of the statement of procedure.

"This inquiry has been given immediate point today by receipt this afternoon of a cable No. 1 (copy of which is also enclosed) from the National Bank of Bulgaria asking on what terms we could buy bankers acceptances for its account, guaranteed by us and which, in case of need, would be discounted by us. The National Bank of Bulgaria here has reference to the existing provision in our arrangement with that bank, as set forth in our letter of November 26, 1928 (copy of which was forwarded to the Board on August 11, 1933), for the purchase of bankers acceptances for its account with our guarantee of payment at maturity, and our agreement to repurchase the acceptances or to sell them in the market at any time before maturity, if so requested. These are the first recent evidences of foreign interest in our acceptance market, but such interest may increase in the future, especially if there is a further hardening of short term money rates here. In these circumstances, it is necessary that we have a clear mutual understanding of the pertinent sections of the established procedure with respect to foreign relationships of Federal reserve banks. We hope, therefore, that you will confirm our understanding of our authority in connection with such transactions, so that we shall be able to give our prompt attention to orders transmitted to us in accordance with the terms and conditions now governing accounts maintained with us by foreign central banks. It is earnestly requested that such confirmation be given to us by telegram tomorrow, Thursday, so that we may be in a position to comply with the Bulgarian National Bank's request for prompt reply by cable.

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"We have in mind, of course, that this authority involves one of the important questions to be considered in reviewing all of our foreign accounts, but we do not anticipate that this business will revive so rapidly as to make the continuance of past practices a matter of major concern for sometime to come."

Mr. Morrill was requested to inform Mr. Knoke over the telephone that the matter involved a question of policy which the Board felt required special attention and that because of consideration of another important matter it would be necessary to defer action and reply until tomorrow.

Further information with respect to certain aspects of the economic and monetary situation for the consideration of the Board in connection with determination of the question whether or not it should make a further increase in the required reserves of member banks was submitted by Messrs. Thomas, Piser and Edmiston.

At the conclusion of the statements Messrs. Goldenweiser, Parry, Thomas, Currie, Blattner, Gardner, Garfield, Longstreet, Piser and Edmiston left the meeting.

There followed a general discussion of problems before the Board in connection with its consideration of open market policy and reserve requirements of member banks and of the action which might be taken by the Board or the Federal Open Market Committee.

At the conclusion of the discussion, it was agreed that an informal meeting should be held tomorrow afternoon at 2:30 p. m. for a discussion of the question whether action, if taken, should be in the form of an increase in reserve requirements, a reduction in the system portfolio, or a combination of both.

At this point Messrs. Thurston and Dreibelbis left the meeting and consideration was then given to each of the matters hereinafter referred

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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 January 19, 1937, were approved unanimously.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, and Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the respective banks on January 20, 1937, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Bond, in the amount of \$50,000, executed under date of January 12, 1937, by Mr. D. E. Moncrief as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

Approved unanimously, together with a letter to the Fireman's Fund Indemnity Company, San Francisco, California, reading as follows:

"This refers to the bond executed on January 12, 1937, by the Fireman's Fund Indemnity Company, San Francisco, California, covering Mr. D. E. Moncrief as Alternate Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

"Under the law, it is the practice of the Federal Reserve Agents at the various Federal Reserve banks to appoint Alternate Assistant Federal Reserve Agents subject to the approval of the Board of Governors of the Federal Reserve System, and you will note that the bond executed by Mr. Moncrief contains a recital that his appointment in the capacity described was made by the Federal Reserve Agent at the Federal Reserve Bank of Atlanta. However, at the time of the appointment of Mr. Moncrief in such capacity, there was a vacancy in the office of the Federal Reserve Agent at the Federal Reserve Bank of Atlanta and such appointment was made by the Assistant Federal Reserve Agent at that bank and approved by the Board of Governors. The Board of Governors, therefore, has approved the bond referred to above, with the understanding that the recital contained therein with reference to the

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"appointment of Mr. Moncrief covers his appointment as described in this letter, and that, in the light of these facts, the description of such appointment as contained in the bond is acceptable to the Fireman's Fund Indemnity Company. It will be appreciated if you will furnish the Board of Governors with a confirmation of this understanding."

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

"Reference is made to your letter of January 7 requesting the Board's approval of the continuation of the payment of salaries at the present rates, for a period of six months from January 1, 1937, to the following employees who are receiving salaries in excess of the maximums provided for their positions in the personnel classification plan of your bank:

	<u>Present Salary</u>	<u>Form A Maximum</u>
Helen Schreiner AC-16 (Typist - Accounting Dept.)	\$1,680	\$1,380
Z. V. Hall GS-CV 1 (Supervisor - Custodies Dept.)	3,600	3,000

"In view of the circumstances outlined in your letter the Board approves the continuation of the payment of salaries at the present rates to the above employees for the period specified.

"At the request of Mr. Hays the revised personnel classification plan for your bank was returned to him on December 14, 1936."

Approved unanimously.

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

"Reference is made to your letter of January 6, requesting the Board's approval of an increase from \$6,500 to \$6,600 in the maximum salary provided for the position Chief of Division of Research in the Personnel Classification Plan of your bank. In view of the statements contained in your letter, the Board approves the above change as requested.

"It will be appreciated if you will forward a revised Form A page number 101 at your early convenience."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on January 4,

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1937, and reading as follows:

"At a recent meeting of the Board of Governors, the Board reviewed its policy with respect to the retirement of officers and employees upon attainment of age 65 and directed that the Federal Reserve banks be advised that, except in particular cases involving exceptional circumstances which should be submitted to the Board for consideration in advance, the Board would not in the future approve a salary beyond the end of the calendar year in the case of any officer or employee who was 65 years of age or more at the end of the preceding calendar year. This action of the Board does not apply, of course, to Presidents and First Vice Presidents who have been appointed for terms of 5 years.

"In the future, therefore, the Board should be advised of each request submitted to the Retirement Committee with respect to the retention in service of an officer or employee after attainment of age 65, with a full statement of the exceptional circumstances which in the judgment of the Board of Directors of the bank justify such retention, and the Board's approval of the payment of salary involved for any period beyond the end of the year in which such officer or employee attains the age of 65 should be obtained in advance."

Approved unanimously

Letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York reading as follows:

"Reference is made to Mr. Dillistin's letter of January 12, 1937, transmitting with favorable recommendation a request of the "Columbus Trust Company", Newark, New Jersey, which was admitted to membership in July 1927, that the Board interpose no objection to the retention by the bank of certain bank stocks which were acquired in contravention of an applicable condition of membership, which reads as follows:

- '3. Except after applying for and receiving the permission of the Federal Reserve Board, such trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company.'

"It has been noted from the information submitted that the stocks in question are carried by the bank at \$8,195, and have a present market value of approximately \$8,600; that the purchases were all made during the years 1929 and 1930; and that

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"the provisions of condition of membership numbered 3 were inadvertently overlooked by the management of the bank. In view of the circumstances and Mr. Dillistin's recommendation, the Board will interpose no objection to the retention by the Columbus Trust Company of the stocks purchased in violation of the condition of membership involved, with the understanding that such stocks shall be disposed of as soon as it is feasible to do so. Please advise the bank accordingly."

Approved unanimously.

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

"This refers to Mr. Sonne's letter of December 30, 1936, and accompanying correspondence with respect to certain securities held by the Pullman State Bank, Pullman, Washington, and listed in the report of examination of that bank made by your examiner under date of October 19, 1936, as not conforming to the requirements of the regulations of the Comptroller of the Currency relating to marketability. Mr. Sonne's letter of December 29, 1936, to the Pullman Bank, expresses the view that, on the basis of information submitted by the bank, the securities in question are securities which are marketable as defined in the Comptroller's regulations. The statement is made, however, that 'before advising definitely as to their status in this respect, a copy of your letter is being transmitted to the Board of Governors of the Federal Reserve System for its consideration and advice.'

"The Board does not ordinarily attempt to pass upon the eligibility under the Comptroller's regulation of individual issues held by State member banks, feeling that this is a matter for the determination of the Reserve banks in the light of the information available to them, particularly in cases such as this, where the question at issue is the marketability of securities having a comparatively local market, a matter regarding which the Reserve banks should be in a position to judge. Of course, the Board will be glad to pass upon questions of interpretation, on questions of general policy under the regulation, and upon questions raised in connection with unusual circumstances if the Reserve banks so desire.

"While it appears that the view now taken by your office with regard to the eligibility under the Comptroller's regulation of the four issues in question is warranted, it does not appear that the matter is one requiring formal consideration or action by the Board and it is suggested, accordingly, that you

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"merely advise the bank that the information submitted appears to support the eligibility of the bonds under the regulation, should that be your final determination of the matter.

"In this connection it may be observed that the letter addressed to you by the Board's Division of Examinations under date of December 19, 1936, did not represent an analysis of the investment account of the bank with a view to determining the eligibility of the various issues in the account or a desire of the Board or its staff to pass upon the eligibility of individual issues. The letter was prompted by comments in the report of examination and the letter from your office to the Pullman State Bank regarding the examination which appeared to be based upon a misinterpretation of the Comptroller's regulation. The Division's letter was written in order that, if such had been the case, appropriate steps could be taken to correct the error in the report of examination and the advice which had been given the bank."

Approved unanimously.

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

"This refers to your letter of December 3, 1936, with regard to the contemplated removal by the American Trust Company, San Francisco, California, of the branches now being operated by it at 7th and J Streets, Sacramento, California, and 1001-10th Street, Modesto, California.

"On the basis of the information which you have submitted in connection with this matter, the Board is of the opinion that the proposed removal of the branches will not result in the establishment of a branch within the meaning of the applicable provisions of section 9 of the Federal Reserve Act and that the Board's approval of the transaction is not required. The Board has no objection to the proposed transaction, provided that it receives the approval of the appropriate State authorities and that your counsel is satisfied that it is effected in accordance with the laws of the State of California."

Approved unanimously.

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

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"Reference is made to your letter of January 12, 1937, advising that, subject to the approval of the Board of Governors, your bank would like to convert the Denver and Omaha branches of the Federal Reserve bank into limited power branches to be operated on the same basis as the Oklahoma City branch.

"The Board of Governors approves your recommendation that the Denver and Omaha branches be converted into limited power branches to be operated on the same basis as the Oklahoma City branch. It will be appreciated if you will advise the Board as to the date on which, in accordance with the resolution adopted by the board of directors of your bank, this change will be made effective."

Approved unanimously.

Letter to Mr. S. C. Pandolfo, Roswell, New Mexico, reading as follows:

"This refers to your letter of January 12, 1937, requesting information with regard to the eligibility of bonded warehouse liquor receipts as collateral within proper limits and inquiring whether such receipts are considered a good investment.

"Section 13 of the Federal Reserve Act authorizes a Federal Reserve bank to discount bankers' acceptances made by member banks which are secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples. In 1920, the Board ruled that a warehouse receipt covering whiskey in bond which can be removed only for very specific or limited purposes is not a receipt conveying or securing title to 'readily marketable staples' within the meaning of this statute and that, therefore, such a receipt is not a proper basis for a banker's acceptance of the kind described. However, the Board has not passed upon this question since the repeal of the national prohibition laws.

"The ruling referred to above has no relation to the legal right of banks to make loans upon the security of warehouse receipts covering whiskey in bond, nor does it relate to the acceptability of liquor receipts as collateral for such loans. Whether or not a bank will make a loan upon the security of such a receipt is a question for its own determination in the light of the circumstances of the case.

"As to whether such a receipt would be considered a good investment if purchased at the right price is a matter concerning which the Board may not appropriately express an opinion."

Approved unanimously.

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Letter to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of January 11, 1937, requesting that the Board rule upon the question whether certain corporations are affiliates of the City State Bank and Trust Company, McAllen, Texas.

"It appears that all of the stock of McAllen Securities Corporation is owned by S. L. Miller, Marjorie E. Miller, and Raymond Miller, all of whom are stockholders of the bank, and that S. L. Miller owns a majority of the stock of the bank. It also appears that a majority of the stock of Miller Brothers Nurseries, Inc., is owned by S. L. Miller. On the basis of such facts, such corporations clearly are affiliates of the bank under the provisions of section 2(b)(2) of the Banking Act of 1933 which provide that the term 'affiliate' shall include any corporation of which control is held, through stock ownership or in any other manner, by the shareholders of a member bank who own or control a majority of the shares of such bank.

"With respect to Carpenter Chevrolet Company, McAllen Bonded Warehouse Company, Inc., O'Neill Specialty Company, and Rio Grande Securities Company, Inc., you state that all of the stock of each company is 'controlled by and pledged to S. L. Miller'. In the absence of complete information concerning the facts upon which you base your conclusion that the stock is controlled by S. L. Miller, the Board is not in a position to make definite rulings with respect to such corporations. However, it appears that probably the stock of such corporations is held by S. L. Miller as collateral security for loans. If such is the case, the question whether such corporations are affiliates of the bank apparently turns upon the question whether, under the terms of the pledge agreements, S. L. Miller now has the right to vote such stock or to direct the manner in which it is to be voted. While it will be necessary for the Board to be furnished with further facts in order to determine whether S. L. Miller controls the stock of such corporations, it may be stated that, if he does control the stock, such corporations clearly are affiliates of the bank under the provisions of section 2(b)(2) of the Banking Act of 1933 referred to above.

"If it is desired, the Board will be glad to give further consideration of this matter upon receipt of complete information, together with a copy of an opinion by counsel for your bank concerning the matter."

Approved unanimously.

Letter to Honorable Robert F. Wagner, Chairman, Senate Committee on Banking and Currency, reading as follows:

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"This refers to the letter dated January 11, 1937, from Mr. Leon H. Keyserling, Clerk of the Senate Committee on Banking and Currency, requesting that the Board of Governors of the Federal Reserve System submit a report on S. 417, a bill to extend the period during which direct obligations of the United States may be used as collateral security for Federal Reserve notes.

"The Board of Governors favors the enactment of this bill, and there is inclosed herewith a statement which expresses the views of the Board with reference to the desirability of its enactment."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morrie
Secretary.

Approved:

W. Steeles
Chairman.