

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, January 22, 1937, at 10:45 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. Smead, Chief of the Division of Bank
Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Gardner, Senior Economist, Division of
Research and Statistics

Reference was made again to the letter dated January 20, 1937, from Vice President Knoke of the Federal Reserve Bank of New York, which was presented at the meeting of the Board yesterday with respect to inquiries received by the bank from the Bank for International Settlements and the National Bank of Bulgaria referring to the possibility of purchases of bankers' acceptances by the Federal Reserve Bank of New York in the New York market for the account of the Bank for International Settlements and the National Bank of Bulgaria in accordance with the terms and conditions of the respective agreements governing the accounts maintained by these banks at the New York bank.

In this connection Chairman Eccles referred to the understanding reached by the Board with President Harrison of the Federal Reserve Bank of New York, at the time the statement of procedure with respect to foreign relationships with Federal reserve banks was under consideration, that the

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outstanding agreements covering the establishment and maintenance by the Federal reserve bank of accounts for foreign central banks would be revised and to the discussion at that time with respect to the modification of the condition contained in such agreements that the Federal reserve bank would purchase for such foreign banks bankers' acceptances with the guarantee of the bank of payment of such bills at maturity and an agreement on the part of the Federal reserve bank that it would repurchase such acceptances before maturity upon request or sell them in the market.

Mr. Broderick said that it had been the custom for the Federal Reserve Bank of New York in the past to make such purchases for foreign central banks for which it carried accounts; that such purchases had also been made by commercial banks; that such commercial banks might be called upon to do so exclusively if the Federal Reserve Bank of New York did not make the purchases; and that it would be desirable to permit the New York bank to continue to make such purchases so that they would not be scattered among the commercial banks and the Federal Reserve Bank of New York would be in position to be informed currently and fully as to all such transactions and their effect upon the market. He felt, however, that the Board should likewise be in position to watch the effect of such operations in view of the liability which might be incurred by the Federal Reserve System in connection therewith and that while he felt that the Federal Reserve Bank of New York should be permitted to act for foreign central banks in such matters currently without the necessity of having each transaction passed upon by the Board before it could be executed, he felt that

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some reasonable limit should be fixed upon the aggregate amount for which the Federal reserve bank would be permitted to be liable at any one time without further authorization from the Board, so that the Board would be in position to review the transactions from the standpoint of their possible effect upon the domestic credit situation before additional purchases were made. In this connection, Mr. Smead advised the Board that the reports which the Federal reserve banks are required to make currently to the Board would reflect all such transactions on which the Federal reserve bank would have a contingent liability and that at the present time there is no outstanding liability on the part of Federal Reserve Bank of New York on account of such purchases. The Board was also advised that any participation of other Federal reserve banks in such transactions is solely on a voluntary basis and that they are not handled through the system open market account.

After discussion, Mr. Broderick moved that the Federal Reserve Bank of New York be advised that, pending approval by the Board of the revisions of the outstanding agreements covering the accounts maintained by the Federal Reserve Bank of New York for foreign central banks, the Board authorize the Federal Reserve Bank of New York to purchase for such foreign central banks, including the Bank for International Settlements, bankers' acceptances which are eligible for purchase under the regulations of the Board of Governors of the Federal Reserve System, with the guarantee of the Federal Reserve Bank of payment at maturity and its agreement either to repurchase them or, at its option, to sell them in the market, in accordance with the terms and conditions of the agreements covering the accounts in connection with which such purchases are made; provided that the aggregate amount of the liability assumed by the Federal reserve banks in connection

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with all such acceptances purchased for all foreign central banks, including the Bank for International Settlements, shall not exceed at any one time the sum of \$25,000,000, without further specific authorization which shall be obtained in advance from the Board of Governors of the Federal Reserve System.

Carried unanimously, with the understanding that the Secretary would advise Mr. Knoke by telephone that the Federal Reserve Bank might proceed to comply with the request of the National Bank of Bulgaria, of which a copy was transmitted with Mr. Knoke's letter of January 20, 1937, and that a letter setting forth the Board's action with respect to the general question of procedure would follow.

At this point Mr. Gardner left the meeting.

Pursuant to the action taken at the meeting on January 19, 1937, there had been sent to the members prior to this meeting a summary of the actions taken by the Board in recent years with respect to the salary of Mr. L. F. Sailer, retired Vice President of the Federal Reserve Bank of New York, and the question what action, if any, the Board should take with respect to the payment by the New York bank on his behalf of a retirement allowance not exceeding \$6,000 in accordance with the general authorization in the Board's letter of December 27, 1935 (X-9405), was given further consideration.

In view of all the circumstances and the unanimous feeling of the Board that its previous action should have been regarded as a final disposition of the matter the Board's secretary was requested to prepare and submit to the Board a draft of a letter advising the New York bank of the Board's position.

Chairman Eccles suggested that the Board give consideration at this

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meeting to the decision to be reached by it in connection with the proposal of the New York Stock Exchange that it be permitted to attempt the elimination, through amendment to its own rules, of the practice of in-and-out trading on the Exchange. Mr. Szymczak stated that Mr. Parry had been studying the proposal further and had encountered certain difficulties in connection with the question of the information to be made available by the Exchange to the Securities and Exchange Commission.

Mr. Parry was called into the meeting and stated that, in accordance with the request made at the meeting on January 18, 1937, of Mr. David Saperstein, Director of the Trading and Exchange Division of the Securities and Exchange Commission, the latter had discussed the Stock Exchange proposal with the two members of the Securities and Exchange Commission who were available and that they felt there would be no objection to its acceptance provided the Board stood ready to adopt the amendment to Regulation T whenever it appeared necessary to do so and the Exchange would be willing to make available to representatives of the Securities and Exchange Commission the reports which the proposal contemplates will be received by the Exchange from its members. Upon taking the latter point up with the Exchange, Mr. Parry said, it was found it was not proposed to make such reports available to the Commission, that the summary reports proposed to be made to the Board which would not include names would be furnished to the Commission, and that inasmuch as there was some question as to the legal authority of the Commission to inspect the records of the members of the Exchange and the Commission had not seen fit, because of certain difficulties involved, to issue

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a regulation specifying the records which must be kept and made available to the Commission, the Exchange felt that it should not make the records in question available to the Commission except when required to do so in connection with some legal proceeding. Mr. Parry expressed the hope that a solution to this difficulty could be found upon further discussion of the matter by representatives of the Exchange and the Commission and that the Board should afford them a reasonable opportunity to remove the difficulty before a decision is reached on the amendment of Regulation T.

Chairman Eccles pointed out that if action is deferred by the Board for the purpose of allowing time for further discussion between the Exchange and the Commission it would be assumed that the Board was willing to afford the Exchange an opportunity to attempt to eliminate the practice of in-and-out trading, and that, therefore, the Board should determine whether it was prepared to have the matter take that course. Each of the members present indicated that, if the Exchange and the Securities and Exchange Commission can agree upon a solution of the problem referred to above, they would be willing to defer the amendment of Regulation T with the understanding stated to the representatives of the Exchange on January 18, 1937, that the Board would be at liberty to amend Regulation T at any time that such action appeared necessary in the sole judgment of the Board.

In this connection it was pointed out that the proposal of the Stock Exchange had not yet been formally submitted to the Board and that the only information the Board had relating to the matter and to the objectives of the proposal was that contained in the letter addressed to Chairman Eccles

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by Mr. Charles R. Gay, President of the New York Stock Exchange, under date of December 28, 1936, requesting an opportunity to confer with the Board regarding the proposal, and the statements made orally by the representatives of the Stock Exchange at the meeting with the Board on January 18, 1937.

Chairman Eccles suggested that Mr. Parry be authorized to call Mr. Dean K. Worcester, Executive Vice President of the New York Stock Exchange, on the telephone and advise him that the Board had placed the question of the amendment to Regulation T on the docket for consideration at the meeting on Friday, January 29, 1937; that the Exchange and the Securities and Exchange Commission should reach an agreement as to what information will be made available to the Commission in the event the proposal of the Exchange is accepted; and that thereafter the Exchange should address a letter to reach the Board prior to January 29, 1937, formally transmitting the proposal of the Exchange and stating fully the procedure which would be followed and the objectives thereof. Chairman Eccles also suggested that Messrs. Parry, Morrill, Thurston and Dreibelbis be requested to prepare a draft of reply to the letter to be sent by the New York Stock Exchange and a proposed press release which would be based upon the assumption that an agreement will be reached by the Exchange and the Securities and Exchange Commission as to the information to be furnished to the latter and that the Board will defer the amendment of Regulation T.

Chairman Eccles' suggestion was approved unanimously.

Thereupon Mr. Parry withdrew from the meeting.

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Mr. McKee then presented a draft of letter to the Presidents of all Federal reserve banks reading as follows:

"In letters dated October 17, 1934 (X-8082), December 15, 1934 (X-9048), and April 2, 1935 (X-9169), the Board has heretofore authorized the Federal Reserve Agents to act in its behalf in connection with transactions requiring action by the Board under certain conditions of membership which it has prescribed.

"In response to inquiries received from the Presidents of two of the Federal Reserve banks at which the transfer of the non-statutory functions of the Federal Reserve Agents had been consummated, the Board authorized such Presidents to act in its behalf in the cases in which authority to so act had previously been conferred upon the Federal Reserve Agents by the Board's letters of December 15, 1934 (X-9048) and April 2, 1935 (X-9169). The non-statutory functions of the Federal Reserve Agents have now been transferred at all of the Federal Reserve banks, and after a review of the matter as applicable in all of the districts the Board authorizes each Federal Reserve bank, through its President, in lieu of the Federal Reserve Agent, to act in the Board's behalf in the cases described in its letters of October 17, 1934 (X-8082), December 15, 1934 (X-9048), and April 2, 1935 (X-9169), within the limitations and subject to the conditions outlined in such letters. However, the President, if he so desires, may delegate such authority in writing to the First Vice President or to the Vice President in charge of examinations."

After a brief discussion, Mr. McKee moved that the letter be approved.

Carried unanimously.

There was a continuation of a previous informal discussion of the program to be followed in connection with the meetings next week of the Presidents' Conference and the Federal Open Market Committee. Chairman Eccles suggested that following the meeting of the Presidents' Conference an informal meeting of the Board with the Presidents of all Federal reserve banks be held for the purpose of hearing statements by Messrs. Goldenweiser, Director of the Board's Division of Research and Statistics, and

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J. H. Williams, Vice President of the Federal Reserve Bank of New York, with respect to the present credit and business situation as well as statements from the Presidents with respect thereto. This conference would be followed on January 26, 1937, Chairman Eccles said, by the meeting of the Federal Open Market Committee. Chairman Eccles' suggestion was discussed and it was understood that the arrangement of the program would be left in his hands.

At this point Messrs. Thurston, Smead and Dreibelbis 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 January 21, 1937, were approved unanimously.

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on January 21, 1937, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"Relet January 13. Board approves temporary appointment of W. W. Turner as assistant examiner for Federal Reserve Bank of Chicago at his present salary of \$5,500 per annum. It is understood that the appointment is only for short period, that you anticipate requesting within near future approval of Mr. Turner's appointment as examiner; that he has had long experience in auditing and credit departments of your bank and that with the additional

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"experience of working with your regular examiners for few months you feel he will be qualified for position as examiner. If such request is submitted, please furnish the balance of the information called for in Board's letter X-7595."

Approved unanimously.

Letter to the board of directors of the "Canaseraga State Bank", Canaseraga, New York, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock of the Federal Reserve Bank of New York:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. As soon as practicable, such bank shall reduce all loans which are in excess of the limits prescribed by the laws of the State of New York to amounts within such limits.
- "6. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$15,683 as shown in the report of examination of such bank as of December 12, 1936, made by an examiner for the Federal Reserve Bank of New York."

Approved unanimously, together
with a letter to Mr. Harrison, President
of the Federal Reserve Bank of New York,
reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Canaseraga State Bank', Canaseraga, New York, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of New York for his information.

"It is understood that the State banking authorities have approved the bank's application to retire the remaining \$10,000 in 'A' debentures sold to the Reconstruction Finance Corporation and the application for membership has been approved with the understanding that the proposed retirement of \$10,000 in debentures

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"may be accomplished within a short time."

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

"This refers to your letter of January 12 with respect to the published condition statement as of December 31, 1936 of the Montana Bank and Trust Company, Great Falls, Montana.

"It is noted that the statement inclosed with your letter was published in the form prescribed by the State banking department, rather than in accordance with the Board's Form 105e, and that it bears no indication that the bank is a member of the Federal Reserve System or that the statement was published in accordance with the requirements of the Federal Reserve bank. The form used by the bank is apparently one supplied by the Federal Deposit Insurance Corporation for the use of State banking departments. It differs in a number of respects from the Board's Form 105e but shows essentially the same information as called for by the Board's form. The figures in the bank's published statement agree with its condition report on Form 105, which has just been received by the Board, except that \$1,588.93 set aside for tax payments is shown in the published statement against the amended caption 'Reserves for contingencies and taxes'. This difference is a result of the fact that the form supplied by the State banking department contains no item corresponding to Item 28 of Form 105, 'Interest, taxes, and other expenses accrued and unpaid'.

"In this connection, we find that the subject bank, in common with a number of other State bank members in Montana, published its statement for June 30, 1936 in accordance with the Board's Form 105e and bearing an inscription to the effect that the statement was published in response to calls made by the Federal Reserve bank and the State banking department. It is quite possible, therefore, that it was merely an inadvertence on the part of the bank in using the form supplied by the State banking department for the December 31, 1936 call.

"In the circumstances, the Board will not require the Montana Bank and Trust Company to republish its condition report as of December 31, 1936 in accordance with the Board's Form 105e. Please, however, inform the bank that future condition reports submitted in response to a call by your bank must be published in the form prescribed by the Board of Governors, but that the published statements may bear an inscription to the effect that they are published in response to calls made by the Federal Reserve bank and the State banking department."

Approved unanimously.

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Letter to Mr. W. D. Radford, c/o Munson Builders Supply Co.,
West Hempstead, New York, reading as follows:

"This refers to your letter of December 31, 1936, relative to loans by Federal Reserve banks under Section 13b of the Federal Reserve Act to members of the small house industry, with which letter you inclosed a copy of a letter addressed to the Federal Reserve Bank of New York.

"It is noted you feel that many banks are not in sympathy with, and some unacquainted with, the industrial loan activities of the Federal Reserve banks and also that the small house industry is not receiving the relief due it either through the Reconstruction Finance Corporation or through the banks in conjunction with Section 13b of the Federal Reserve Act. The Board of Governors has endeavored to bring to the attention of banks and business enterprises the credit facilities which Congress has authorized the Federal Reserve banks to make available to industry under Section 13b of the Act. In furthering this program the Board has on several occasions requested the Federal Reserve banks to familiarize financing institutions in their districts with the terms of Section 13b, at the same time urging such institutions to advise the Reserve bank of any instances coming to their attention in which worthy enterprises in need of working capital have been unable to obtain it.

"The Board of Governors feels that whenever practicable accommodation under Section 13b should be extended through local banks under commitments from or in participation with the Federal Reserve bank, since it was obviously not the intention of Congress to bring the Federal Reserve banks into competition with the usual sources of credit. Nevertheless, it is possible for an established commercial or industrial enterprise to apply directly to the Federal Reserve bank under Section 13b, and the Federal Reserve bank may make loans to or purchase obligations from such business when it appears to the satisfaction of the Reserve bank that the enterprise is unable to obtain requisite financial assistance on a reasonable basis from the usual sources and when such extensions of credit may be made on a reasonable and sound basis, for the purpose of providing working capital, and with maturities of not exceeding five years. It may be noted that builders and other concerns connected with the building industry are among the many types of business which have received accommodation through the Federal Reserve banks under this section of the Federal Reserve Act.

"Your letter to the Federal Reserve Bank of New York refers to the possibility of obtaining credit on the security of the

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"note of a construction company with which your concern deals. You may be assured that the Federal Reserve bank, which has been vested with full authority to pass upon applications for loans submitted to it under Section 13b, will give careful consideration to your request and will be glad to assist you in any way that it can. In this connection the Board of Governors would appreciate your informing the Federal Reserve Bank of New York of any cases such as those referred to in your letter in which you feel that members of your industry could meet the requirements for credit accommodation under the terms of Section 13b of the Federal Reserve Act. A copy of the Board's regulation S, relating to discounts, purchases, loans and commitments by Federal reserve banks to provide working capital for established industrial or commercial businesses, is inclosed for your convenient information."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

W. C. C. C.
Chairman.