A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, February 9, 1937, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
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. Dreibelbis, Assistant General Counsel
Mr. Horbett, Assistant Chief of the Division of Bank Operations

Mr. Ransom referred to the discussions which had been taking place with members of Congress and Chairman Crowley of the Federal Deposit Insurance Corporation regarding the problems which had arisen in connection with the definition of interest in Regulation Q of the Board of Governors by reason of the difference between the Board's regulation and Regulation IV of the Federal Deposit Insurance Corporation, with specific reference to the absorption of exchange and collection charges by member banks and insured nonmember banks respectively. Mr. Ransom reported that Mr. Crowley had agreed to a suggestion that amendments to the Board's Regulation Q and the Corporation's Regulation IV be drafted which would bring them into uniformity on the basis of a declaration of the law and the elimination from both regulations of the definitions of the term "interest" contained therein. Mr. Ransom added that Mr. Crowley had agreed to recommend to the board of directors of the Corporation that
it take such action with respect to its Regulation IV and that it join
with the Board of Governors in the issuance of a statement for release
to the press regarding the matter. This course of action, Mr. Ransom
pointed out, would remove from the Board’s regulation any specific ref-
ERENCE to the absorption of exchange and collection charges or any other
particular type of expense, and in the future, under the regulations of
both bodies, the question what in a particular case would be considered
a payment of interest or a device to evade the prohibition against the
payment of interest would become a matter of administrative determination
under the law and the regulations, in the light of experience and as
specific cases involving the necessity for such determination might arise.
Mr. Ransom referred to the difficulties which members of Congress who had
considered the matter had encountered in endeavoring to determine what,
if any, amendments to the law they would feel justified in proposing and
called attention to the fact that the problem had many ramifications,
some of which touched upon questions of fundamental importance to the
banking system of the country. He expressed the view that it was highly
desirable, in view of other important problems with which Congress is
confronted, that care be exercised to avoid the creation of a situation
which might result in the apparent necessity for Congress to act upon
this particular aspect of banking legislation before all aspects of
the problem had been fully explored and its relation to other more
fundamental problems thoroughly considered. For these reasons, he felt
that it would be best to adopt the proposed procedure to which Mr. Crowley
had agreed and to defer indefinitely a specific determination of the
question whether the absorption of exchange and collection charges would
constitute the payment of interest, at least until some clear necessity
therefor should arise in due course through the presentation of a par-
ticular case, with all the facts required for a carefully considered
decision. The Chairman and other members of the Board indicated their
concurrence with Mr. Ransom's analysis of the situation and the views ex-
pressed by him.

Thereupon, Mr. Ransom moved the adoption
of the following resolution:

"BE IT RESOLVED, That, effective February 11, 1937,
Regulation Q entitled 'Payment of Interest on Deposits', as
adopted to become effective January 1, 1936, is amended by stri-
k ing out subsection (f) of section 1 thereof and by in-
serting after the first sentence of subsection (a) of section
2 thereof the following sentence:

Within this regulation, any payment to or for the
account of any depositor as compensation for the use
of funds constituting a deposit shall be considered
interest."

Mr. Ransom then submitted a draft of an announcement proposed
for release to the press as a joint statement of the Board of Governors
and the Federal Deposit Insurance Corporation upon receipt of advice
from Mr. Crowley that the board of directors of the Corporation had
adopted the proposed amendments to Regulation IV of the Corporation
and had agreed to the proposed announcement. In this connection Mr.
Ransom said that Mr. Crowley and he had agreed that, if the proposed
amendments and press statement were approved, it would be desirable to
call upon Senator Glass and Chairman Steagall of the House Banking and
Currency Committee for the purpose of advising them fully as to the action taken.

The proposed resolution and press release were discussed at length. Mr. Dreiblebis was requested to ascertain whether certain suggested changes in the release were agreeable to the Federal Deposit Insurance Corporation and he withdrew from the meeting for that purpose.

The motion offered by Mr. Ransom was put by the chair and carried by unanimous vote.

At the request of Mr. Ransom there was brought up for consideration a draft of a letter to Mr. Charles L. Heiss, Statistician for the Research Committee of the Wisconsin State Bankers Association, reading as follows:

"Reference is made to your letter of January 22, requesting certain earnings and expense figures for State bank members in Wisconsin covering the calendar year 1935 and certain condition figures of the same banks as of December 31, 1935. It is noted that you have obtained similar data from the Comptroller of the Currency covering national banks and from the Federal Deposit Insurance Corporation covering insured nonmember banks, that you desire to include figures for State bank members in a composite for all banks in the State of Wisconsin, and that any information given you covering State bank members will not be used in any manner which might make possible the identification of the figures for any bank.

"In response to your request there is inclosed, for use under the conditions indicated, a table showing earnings, expenses and dividends of State bank members in Wisconsin for the year 1935, arranged by size of banks, using total deposits as the measure of size, also a copy of the Board's 1935 Annual Report, on pages 261 and 264 of which are shown the State bank members in Wisconsin on December 31, 1935, together with the amounts of their loans, investments, deposits, capital and surplus. It is assumed that the data shown in the Annual Report will give you all the information you need relative to the assets and liabilities of the banks in sub-
"Substantially the same form as furnished by the Comptroller of the Currency covering national banks."

Mr. Ransom stated that he had asked that the proposed letter be brought to the attention of the Board at this meeting for consideration in view of the discussion which had taken place on January 15, 1937, in connection with a request of the Indiana Bankers' Association for certain information. It was pointed out that in that case the request had been for access to reports of condition and earnings and dividends of State member banks, which were on file at the Federal Reserve Bank of Chicago, whereas the present request did not involve access to any reports or records of either the Federal Reserve Bank or the Board, but was confined to a request for statistical information which had been compiled in the Division of Bank Operations on the basis of the reports submitted and that the Board in the past had complied with requests from other organizations for similar information. In that connection, Mr. McKee suggested the question whether it might not be preferable to make such information with respect to State member banks available only through the State banking authorities.

The matter was discussed and at the conclusion of the discussion Mr. Ransom moved that the letter be approved.

Carried unanimously.

Mr. Horbett left the meeting at this point.

Reference was then made to the following resolution adopted by the Senate on February 5, 1937, and transmitted to the Board by the Secretary of the Senate under that date:
"RESOLVED, That the Board of Governors of the Federal Reserve System is requested to transmit to the Senate, as soon as practicable, a report setting forth the reasons for the issuance of the recent order of the Board increasing the reserve requirements of member banks after May 1, 1937, the actual and probable effect of such order with respect to interest rates upon public and private obligations, and its probable effect upon the banking system of the country."

Messrs. Thurston and Goldenweiser were requested to prepare and submit to the Board as promptly as possible a draft of reply to the resolution in accordance with suggestions made during the discussion of the matter.

Mr. Dreibelbis, who had returned to the room during the consideration of the Senate resolution above referred to, stated that he had discussed the changes suggested by the Board in the press release with respect to the amendment of Regulation Q with Mr. L. E. Birdzell, General Counsel for the Federal Deposit Insurance Corporation, and that Mr. Birdzell had stated that the changes were acceptable to him and that the Chairman of the Federal Deposit Insurance Corporation would present the entire matter at a meeting of the board of directors of the Corporation tomorrow for action.

Thereupon the press release was approved unanimously in the following form and it was understood that it would not be given out until after advice had been received of its approval by the Federal Deposit Insurance Corporation:

"In view of widespread differences of opinion in the law-making and administrative branches of the Government as to the intent of the law and as a result of further consultations between the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, their respective
"regulations relating to the payment of interest on demand deposits have been brought into uniformity by amendments adopted by the Board and by the Corporation.

"The definition of 'interest' has been eliminated from Regulation Q of the Board and from Regulation IV of the Federal Deposit Insurance Corporation and paragraph (a) of section 2 of each regulation has been amended by inserting after the first sentence the following: 'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.'

"The effect of these amendments is to declare existing law rather than to interpret and apply the law to particular practices. This will permit the general application by each agency of a uniform law and a determination of specific cases based upon the facts involved. It will also permit each agency to determine, with respect to cases coming before it, whether or not any practice involved in any such cases is a 'device' within the meaning of the statute employed by the banks to evade the prohibition of the law.

"The Board of Governors, in its original definition of the term 'interest' (section 1(f)), specified that such term should include the payment or absorption of exchange or collection charges which involve out-of-pocket expenses. The present action of the Board of Governors removes this finding or specification from its regulation.

"Henceforth under both regulations the question of what in a particular case is a payment of interest upon a demand deposit or a device to evade the prohibition against the payment of such interest, becomes, for both agencies, a matter of administrative determination under the general law in the light of experience and as specific cases may develop."

Mr. Ransom was authorized to call upon Senator Glass and Representative Steagall, in company with the Chairman of the Federal Deposit Insurance Corporation, for the purpose of advising them as to the action of the Board and the Corporation in this matter and the reasons therefor.

It was stated that inquiries had been made by Presidents of Federal reserve banks as to the status of the undertaking of the Secretary of the Treasury to obtain an appropriation to replace the existing stocks
of unissued Federal reserve notes of the 1928 series held by the Federal reserve banks. Chairman Eccles said that he had addressed a letter to the Secretary of the Treasury regarding the matter under date of December 29, 1936, and that he would ascertain its present status and advise the Board.

Consideration was given to a memorandum dated February 1, 1937, from Mr. Dreibelbis, Assistant General Counsel, requesting advice as to the wishes of the Board with respect to the practice to be followed during the present session of Congress in answering requests from Congressional committees for reports on proposed legislation. In connection with this matter reference was made to the position taken by the Board when the same question was presented on February 27, 1935, and the procedure subsequently followed. It was agreed that such requests should be held without action unless it appeared that there was something in the situation surrounding a particular bill which made it advisable to submit a prompt report and it appeared that the Board had a definite position which it desired to state; it being understood that counsel's office would keep in close touch with all banking legislation and would submit to the Board for consideration a report on any bill when it appeared that, because of its nature or any special consideration that was being given to it by either House of Congress, such a report should be made upon request by a committee of Congress.

It was decided that the procedure set forth above should be followed during the present session of Congress.
Attention was directed to a memorandum addressed to Mr. Broderick under date of January 25, 1937, by Mr. Carpenter with respect to the service of Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, as a director of the James G. Biddle Company, a corporation recently organized to carry on the business of dealing in electrical and scientific instruments formerly conducted by his father-in-law. The memorandum had been circulated among the members of the Board at the request of Mr. Broderick for their information prior to consideration at a meeting of the Board of the question whether, in accordance with the position previously taken by the Board that officers of Federal reserve banks should not be identified with any outside business interests, Mr. Sinclair should sever his connection with the company.

After consideration of the question in the light of the circumstances set forth in the memorandum, Mr. Broderick moved that the matter be laid on the table, with the understanding that any other case of this kind coming to the attention of the Board will be considered on the basis of the circumstances existing in each instance.

Carried unanimously.

At this point Mr. Goldenweiser left the room.

There followed a discussion of a memorandum dated February 3, 1937, from Mr. Vest, Assistant General Counsel, calling attention to three alternative bills which had been introduced in the House of Representatives to amend section 19 of the Federal Reserve Act to extend, or to place in the Board authority to extend, the time during which member banks may pay interest on demand deposits of public funds. The
memorandum stated that the bills conformed to suggestions that were made by Mr. D. W. Bates, Superintendent of Banks, and other officials from the State of Iowa, at a conference with members of the Board and its staff on February 2, 1937. Reference was made during the discussion to the likelihood of the passage of one of the bills at the present session of Congress and to the position the Board should take with respect to the bills.

It was understood that Mr. Ransom would discuss the matter with the Comptroller of the Currency and the Chairman of the Federal Deposit Insurance Corporation, with a view to the formulation of a position which might be agreed upon by the Board and the two agencies referred to.

Mr. Ransom presented a draft of a reply to a letter addressed to him under date of February 1, 1937, by Representative Wright Patman in which he made certain inquiries concerning matters related to the definition of "interest" as contained in the Board's Regulation Q. The reply had been circulated among the members of the Board prior to consideration at a meeting of the Board.

After discussion the letter was approved unanimously in the following form:

"This refers further to your letter of January 29, which Mr. Ransom acknowledged on the same date, asking for some information regarding payments of interest by banks.

"You request the amount of interest paid by 'Federal Reserve Banks' to other banks, including member and nonmember banks, for interest on daily balances. The context of your letter indicates, however, that you probably have in mind the amount of interest paid by member banks of the Federal Reserve System.

"Prior to 1927 the reports of earnings and expenses of member banks did not classify interest payments on deposits,
I: nor did they distinguish between interest earned on loans and interest and dividends earned on bonds, stocks and other securities. The data that you desire are not available, therefore, for 1925 and 1926, the first two years of the period covered by your request. The inclosed statement (Table No. 1) shows the requested figures by calendar years for the period 1927-1935, by semi-annual periods for the year 1933 (when the Banking Act became law), and for the first six months of the year 1936. Figures for the last half of 1936 will not be available for some time. The statement also shows the average rates of interest paid and earned by member banks and the average amounts of deposits. The average rates of interest paid were computed simply by dividing the amount of interest paid by the average amount of deposits. The rates do not, therefore, necessarily reflect the prevailing level of rates of interest, since interest was not necessarily paid on all deposits of a given class.

"You will note from the statement that the average rates of interest paid on deposits by member banks declined steadily after 1930, and that the average rate paid on bankers' balances during the first half of 1933 was only 7/10 of 1 percent. You will recall perhaps that banks on their own initiative had been reducing interest rates paid on bankers' balances as well as on other deposits before the enactment of the Banking Act of 1933. For example, the maximum rates of interest on demand deposits payable by member banks of the New York Clearing House Association were changed as follows during the period 1929-1933:

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Rates payable to Mutual savings banks</th>
<th>Other banks and trust companies</th>
<th>Other depositors</th>
</tr>
</thead>
<tbody>
<tr>
<td>In effect January 1, 1930</td>
<td>3%</td>
<td>2%</td>
<td>2-1/2%</td>
</tr>
<tr>
<td>Changes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 26, 1930</td>
<td>2-1/2</td>
<td>1-1/2</td>
<td>1-1/2</td>
</tr>
<tr>
<td>June 26, 1930</td>
<td>1-1/2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>December 27, 1930</td>
<td>1</td>
<td>1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>May 19, 1931</td>
<td>1-1/2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>October 16, 1931</td>
<td>1-1/2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>May 13, 1932</td>
<td>1</td>
<td>1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>January 25, 1933</td>
<td>1/4</td>
<td>1/4</td>
<td>1/4</td>
</tr>
<tr>
<td>March 6, 1933</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>April 13, 1933</td>
<td>1/2</td>
<td>1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>June 2, 1933</td>
<td>1/4</td>
<td>1/4</td>
<td>1/4</td>
</tr>
<tr>
<td>June 15, 1933</td>
<td>1/4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
"The above rates applied also to time deposits of the shorter maturities.

"It is, of course, impossible to determine what the average rates of interest paid on deposits would have been in 1933-1936, if the Banking Act of 1933 had not prohibited the payment of interest on demand deposits and had not provided for the regulation of the rates of interest paid on time deposits. In view of the trend in interest rates paid on deposits prior to the enactment of the Banking Act of 1933, however, it seems clear that interest rates would not have been nearly as high in 1933-1936 as they were in 1927-1930 if such legislation had not been enacted.

"The amount of bankers' balances on deposit at city correspondents was very much larger in 1936 than ever before, in spite of the fact that interest could not be paid on demand deposits. In view of the accumulation of surplus bank funds at both city and country banks generally, due largely to heavy imports of gold, there is no reason to believe that city correspondents would have been willing or able to pay any appreciable amount of interest on bankers' balances even if the law had not prohibited the payment of interest on demand deposits.

"In the circumstances, we have not made any computations to show the amount of interest which would have been paid by member banks either on bankers' balances or on other deposits during the period 1932-1936 if the average rates of interest paid during this period had been the same as the average rates of interest paid before the enactment of the Banking Act of 1933. Such computations may, of course, be made from the data shown in the inclosed statement. The excess of interest payments, as thus computed, over the amount of interest actually paid during 1932-1936 would not, however, measure the savings to the banks since, as previously pointed out, the rates of interest paid by member banks were declining steadily before the Banking Act of 1933 became law. If you decide to have computations made along the lines indicated in your letter, you may wish to have semi-annual figures for 1933, in view of the fact that the Banking Act of 1933 did not become law until June 16, 1933; such figures are shown in Table No. 1, in addition to the calendar year totals.

"The data in Table No. 1 relate only to member banks of the Federal Reserve System, both national and State. Corresponding data are not available for nonmember banks. Very few of the State banking departments publish any figures on earnings and expenses of banks under their supervision. However, the Federal Deposit Insurance Corporation obtains reports of earnings and expenses from insured nonmember banks, and there
"is inclosed a statement (Table No. 2) showing the available data covering such banks for the years 1934-1935.
"It is hoped that this information will serve your purposes."

At this point Messrs. Thurston 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 February 6, 1937, were approved unanimously.

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

"This is in answer to your letter of January 4, 1937, relating to the assignment of an officer of the Federal Reserve Bank of Chicago to take charge of the work of the Bank in the administration of the Securities Exchange Act of 1934.
"The Board notes from your letter that it is your desire to try Mr. A. T. Sihler, Assistant Vice President, in this position before considering anyone else, that you have made arrangements (subject to Board approval) for doing so, and that Board approval of the proposed arrangement is requested.
"The Board is advised, moreover, that since writing your letter you have consulted with Mr. Parry, Chief of the Board's Division of Security Loans, have reaffirmed your interest in having this work handled satisfactorily and in full cooperation with the Board's Division of Security Loans, have explained that Mr. Sihler would be expected to give all of his time to this work except such as might occasionally be needed in your Fiscal Agency Department (as, for instance, when some heavy piece of financing is being negotiated for the Treasury), and stated that in your opinion Mr. Sihler will succeed in the work. The Board is also advised that Mr. Sihler has recently consulted with Mr. Parry and other members of the staff in Washington, and that if his assignment is approved he would plan to keep in close touch with the work done in this field by the Board and by the several Federal Reserve banks.
"In view of the information developed in your letter and elaborated in these conferences, the Board approves the arrangement proposed."

Approved unanimously.
Letter to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to your letter of February 1 advising that the Executive Committee of your bank, at its meeting on January 29, authorized the payment, subject to the approval of the Board, of an amount not to exceed $350 toward the expenses of the Secretary's office of the Federal Advisory Council, and of $20 to the member representing your district on the Council for each meeting attended, plus a per diem allowance of $10 during the period the member is absent from home as a result of attendance at meetings, in addition to the actual necessary traveling expenses incurred in attending such meetings.

"As you noted, the Board's telegram of March 11, 1936, to Mr. Schaller authorized your bank, until further notice, to pay fees and expenses as mentioned above, and accordingly no action by the Board on these matters appears to be necessary at this time."

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 27, 1937, regarding the exercise of fiduciary powers by the Holstein State Bank, Holstein, Iowa.

"It is not entirely clear from your letter whether the bank desires permission to exercise all of the fiduciary powers granted under its charter and the applicable provisions of the State law, or merely desires permission to act as trustee in the one trust which it is now administering. You state, however, that you are not in a position to give the specific information requested by the Board in its letter X-9801, to be submitted with applications for permission to exercise fiduciary powers, but indicate that full information could be obtained at the time of the next examination which undoubtedly will be within the next ninety days.

"In the circumstances, the matter will be held in abeyance awaiting the information to be developed at the next examination, together with definite advice as to the extent to which the bank desires permission to exercise trust powers, and your recommendation as to the advisability of granting
"Reference is made to your letter of January 20, 1937 concerning inquiries received from the Bank for International Settlements and the National Bank of Bulgaria regarding the purchase in this market of bankers' acceptances for the account of such banks and also concerning your understanding of the procedure recently established with respect to foreign relationships of Federal Reserve banks as outlined in the Board's statement of procedure (X-9774).

"In the latter connection, you have directed the Board's attention to the use of the words 'otherwise authorized' in the preamble of paragraph 3 of the statement. The Board did not intend that this language should be interpreted as approving or authorizing a transaction otherwise requiring specific permission of the Board merely because such transaction is provided for in an existing agreement with a foreign central bank.

"In connection with the instant case, this will confirm the advice given you by this office over the telephone on January 22, 1937, that your bank might proceed to comply with the request of the National Bank of Bulgaria (the request of the Bank for International Settlements having been withdrawn) and that a letter setting forth the Board's action with respect to the general question of procedure would follow.

"The Board agrees that, to the extent that bankers' acceptances are purchased for the account of foreign central banks, it is desirable for the Federal Reserve bank to purchase them in order that such transactions may be concentrated as much as possible in the reserve banks and they may be informed currently and fully as to all such transactions and their effect upon the market. At the same time, in view of the
"obligation assumed by the Federal Reserve banks in connection with a guarantee of payment at maturity and an agreement to repurchase or sell in this market, and the possible effects upon the domestic situation, the Board feels that it should be in a position to observe and review the effects of such operations. Therefore, while it is recognized that the Federal Reserve banks should be in a position to act upon the requests of foreign central banks without being under the necessity of referring each specific case to the Board before the transaction is executed, it is felt that some reasonable limit should be fixed upon the aggregate amount of the liability that may be assumed by the Federal Reserve banks and be outstanding at any one time without further authorization from the Board, so that, when the total of such liability approaches the limit fixed by the Board, it will be in a position to review the matter from the standpoint of possible effects upon the domestic credit situation, before additional purchases are made which will increase the aggregate contingent liability to an amount beyond such limit.

"Accordingly, 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 authorizes the Federal Reserve Bank of New York, in accordance with the terms and conditions of existing agreements, to purchase for the account of 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, with the guarantee of the Federal Reserve bank of payment at maturity and its agreement either to repurchase the acceptances or, at its option, sell them in the market; provided that the aggregate amount of the liability assumed by the Federal Reserve banks in connection 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.

"A copy of this letter is being sent to the Presidents of all Federal Reserve banks for their information."

Approved unanimously.
Thereupon the meeting adjourned.

Approved:

[Signature]

Chester [Name]
Secretary.

[Signature]

Mr. [Name]
Chairman.