

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 13, 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. Wyatt, General Counsel
Mr. Parry, Chief of the Division of
Security Loans
Mr. Dreibelbis, Assistant General Counsel

Chairman Eccles referred to the question considered at the meeting of the Board on April 9, 1937, of the policy of the Federal reserve banks with respect to making loans to member banks on Government securities at par. The Chairman said that he recalled that at a previous time when he made inquiry regarding this matter it appeared that there were two or three banks that did not have a definite policy of loaning at par and that he would like to communicate informally with these banks for the purpose of ascertaining their present policy in this respect and in the event that any of them did not have a policy of lending at par to suggest that they consider the advisability of adopting such a policy. The question was discussed and no action was taken but no objection was made to the Chairman's making the inquiry if he so desired.

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Mr. Paulger, Chief of the Division of Examinations, joined the meeting at this point.

Mr. Ransom stated that pursuant to the action taken at the meeting on April 9, 1937, a letter had been prepared for his signature to Mr. William O. Douglas, Member of the Securities and Exchange Commission, reading as follows:

"Since the receipt of your letter of March 11 I have given considerable thought to the proposed trust indenture legislation in the light of our various discussions and the changes that you have indicated might be made. As I have understood that you were not asking that the Board take any action upon this matter I have not asked the Board to pass upon it and the suggestions that we have given you have been simply those of members of the staff and myself individually.

"Being in accord, as you know, with the general objective of your bill, I have been concerned about the possibility that some of its provisions might make it impracticable for banks to act as trustees under corporate indentures or might make the costs of such service so high as to be prohibitive. You have very kindly considered all of our suggestions, however, and I believe that there is nothing material that we could add to the points that we have discussed with you. The members of our staff and I shall be glad to continue to discuss the provisions of this bill with you during the progress of its revision whenever you so desire. If after the introduction of the bill in Congress we should have any further thoughts that have not been covered in previous discussions we will be glad to call them to your attention and it is understood of course that the Board may submit its views to the appropriate committees in Congress upon their request."

Mr. Ransom stated that he had discussed the matter over the phone with Mr. Douglas and had made it clear that if the above letter were sent it would be with the understanding that the Board had not reviewed the proposed legislation and that the letter was not to be regarded in any sense as approval by the Board of the legislation. He

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stated that Mr. Douglas had indicated that a reply of the kind proposed would be satisfactory to him.

The immediate dispatch of the letter by Mr. Ransom was agreed to.

Consideration was given to a memorandum dated March 30, 1937, from Mr. Parry recommending the adoption by the Board of an amendment to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, which would amend subsections (c) and (d) of section 5 of the regulation to extend from July 1, 1937, to January 1, 1938, the period during which persons subject to Regulation T may continue to maintain credit (which they had extended for the purpose of purchasing or carrying securities prior to the effective date of Regulation T or without violation of the regulation subsequent to that date) without collateral or on collateral other than registered securities. The memorandum, which had been circulated among the members of the Board, stated that under the terms of Section 7(c) of the Securities Exchange Act of 1934 such credit may be maintained only in accordance with such rules and regulations as the Board may prescribe; that the Board has power to permit the maintenance of such credit only under specified conditions and for limited periods; that the amendment was desirable at this time for the reason that the period originally specified would soon expire and brokers were inquiring as to whether or not the period would be extended; that the number of instances and total amount of credit involved were relatively small and there was no reason, from the standpoint of preventing the excessive

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use of credit or for the purpose of preventing circumvention of the provisions of Regulation T, why the period should not be extended.

Mr. Parry pointed out how hardship might result in some instances in the event the period during which the credit may be maintained were not extended. He also stated that extension of the period to the end of the current year was recommended because of the fact that within the next few months a general revision of Regulation T was anticipated in connection with which other desirable amendments to subsections (c) and (d) of section 5 could be considered. There followed a discussion of Mr. Parry's recommendation as well as of certain alternative amendments. During this discussion Mr. Vest, Assistant General Counsel, joined the meeting.

At the conclusion of the discussion,
Mr. Szymczak moved the adoption of the
following resolution:

RESOLVED, That effective April 23, 1937, the Board approve and adopt the following amendment to Regulation T:

"Section 5 of Regulation T is hereby amended by striking out the date 'July 1, 1937' in subsections (c) and (d) of said section and substituting therefor the date 'January 1, 1938'."

Carried unanimously.

Mr. Broderick referred to the fact that he is one of the trustees of the Retirement System of the Federal Reserve Banks and stated that the annual meeting of the board of trustees will be held in Chicago on April 20, 1937; that because of other matters requiring his attention in Washington he felt that he should not go; and that, if

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agreeable to the Board, he would request Mr. Smead, Chief of the Division of Bank Operations, to attend the meeting as an observer. The other members of the Board indicated that they would be agreeable to Mr. Smead attending the meeting.

Mr. Davis stated that the Personnel Committee had made an investigation of Mr. F. W. Peck, Director of the Extension Division of the University of Minnesota, and that it recommended that the Board authorize Mr. Davis to tender to Mr. Peck appointment as a Class C director of the Federal Reserve Bank of Minneapolis for the unexpired portion of the term ending December 31, 1939.

The recommendation of the Personnel Committee was approved unanimously.

At this point Messrs. Thurston, Wyatt, Paulger, Parry, Dreibelbis, and Vest 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 April 12, 1937, were approved unanimously.

Telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"This refers to your letter of March 17, 1937, stating that The El Paso National Bank, El Paso, Texas, desires to be advised whether funds received by it under escrow agreements, prepared in accordance with the printed form inclosed with your letter, should be deemed to be trust funds within the meaning of Regulation F.

"It is assumed that the bank's inquiry relates to the question whether, pursuant to the provisions of section 9(b) of Regulation F, securities must be deposited in the bank's trust department as collateral security for such funds if they are used by the bank in the conduct of its business. In this connection, your attention is called to the Board's letter of August 4, 1936, (X-9675, Reg. F-5), and the ruling published in the Federal Reserve Bulletin for September, 1936, at page 691. As therein stated, the question whether funds are held by a bank as fiduciary, within the meaning of the above-mentioned requirements of Regulation F, depends upon the terms and conditions under which the funds are received and held in the particular case and the Board has not attempted to prescribe any general rule which may be applied in deciding this question.

"The printed form of agreement accompanying your letter does not set forth the conditions of the escrow or other facts showing the exact nature of the transaction and the duties to be performed by the bank and whether it is the understanding of the parties that the funds received by the bank are to be held by it as fiduciary. Accordingly, in the absence of further information concerning the facts of particular cases, the Board is not in a position to express an opinion with respect to the question whether, in cases in which agreements in such form have been executed, fiduciary relationships are involved and the bank holds funds as fiduciary.

"It is hoped that, in the light of the Board's rulings above referred to, the bank, with your assistance, will be able to reach a conclusion with respect to any of the cases about which it may have some doubt upon a consideration of all of the facts relating to such cases; but if you deem it desirable the Board will be glad to advise as to its views regarding any such cases upon receipt of full information as to the facts involved. If you have not already done so, it may be helpful to discuss the matter with the Chief Na-

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"tional Bank Examiner for your district."

Approved unanimously.

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

"Reference is made to your letter of April 2, 1937, requesting approval of the action of your board of directors in voting, subject to the approval of the Board of Governors of the Federal Reserve System, to authorize the officers of your bank to open and maintain an account on your books in the name of the Banco Nacional de Costa Rica -- Issue Department and to carry out operations in this market for that bank along substantially the same general lines and subject to substantially the same general terms and conditions as for other central banks having accounts with you.

"The Board approves the action of your board of directors, with the understanding, however, that at such time as the Board approves a standardized form of agreement, as contemplated in paragraph (2), subsection a of section 2 of the 'Procedure with Respect to Foreign Relationships of Federal Reserve Banks' (X-9774), the agreement with the Banco Nacional de Costa Rica -- Issue Department will be reviewed with reference to this standardized form. The Board also approves the participation in the account by the other Federal reserve banks, and they are being advised accordingly by letter today."

Approved unanimously.

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

"Reference is made to your letter of April 8, 1937, stating that the Bank for International Settlements has advised you that the Hungarian National Bank is making arrangements to transfer to your bank on April 18, 1937, interest due on that date at the rate of one per cent per annum on the First and Second Syndicate Credits, in accordance with the renewal agreement of October 18, 1936, and that the amounts due the Federal reserve banks are \$1,232.46 on the First Credit and \$11,300.16 on the Second Credit according to the legal definition of the dollar in force on December 17, 1931.

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"The Board approves the proposal that your bank advise the Bank for International Settlements that you prefer payment in dollars and, as in the case of previous interest payments, of your willingness to have such amounts converted into present United States dollars, and upon receipt of dollar proceeds to credit \$1,232.46 and \$11,300.16 as interest and the balance as partial repayments of principal, with the understanding, of course, that you will obtain the assent of the other Federal reserve banks to the proposal before advising the Bank for International Settlements in the premises."

Approved unanimously.

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

"Receipt is acknowledged of your letter of April 9, 1937, together with the inclosed copy of the letter which you propose to send to the Bank for International Settlements concerning the central bank credits to the National Bank of Hungary which mature July 18, 1937.

"The Board agrees fully with the views you propose to convey to the Bank for International Settlements and has no objection to your bank's sending a letter in the form which you have submitted. In this connection, it is assumed that the proposed letter meets with the approval of your board of directors and that due consideration will be given to any suggestions which you may receive from the other participating Federal reserve banks as a result of your having sent to them copies of the proposed letter.

"Please keep the Board informed of any developments growing out of this correspondence."

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Presidents Conference, reading as follows:

"Receipt is acknowledged of your letter of April 8 in regard to a suggestion made by Mr. Peyton that a method of indexing and otherwise making readily available rulings, interpretations and instructions emanating from the Board be devised. Mr. Peyton had previously sent to me a copy of his letter of March 3 addressed to you and the memorandum referred to therein. The Board will be glad to cooperate with the proposed interim committee in attempting to work

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"out a satisfactory solution of this problem and to that end has designated Mr. L. P. Bethea, Assistant Secretary of the Board, to sit with the committee. Other members of the Board's staff, of course, will render any assistance that may be desired."

Approved unanimously.

Thereupon the meeting adjourned.

Cheser Morier
Secretary.

Approved:

W. Scales
Chairman.