

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in Washington on Tuesday, May 18, 1937, at 10:15 a.m.

PRESENT: Mr. Eccles, 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. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Goldenweiser, Director of the Divi-  
sion of Research and Statistics  
Mr. Smead, Chief of the Division of Bank  
Operations  
Mr. Parry, Chief of the Division of Secur-  
ity Loans

Messrs. Steele, Loeb, Williams, Gohen, Ball,  
Brown, Smith, Kemper, Harding and Dick,  
Members of the Federal Advisory Council  
representing the First, Third, Fourth,  
Fifth, Sixth, Seventh, Eighth, Tenth,  
Eleventh and Twelfth Federal Reserve Dis-  
tricts

Mr. A. A. Tilney, Chairman of the Bankers  
Trust Company, New York, New York, repre-  
senting the Second Federal Reserve District  
in the absence of Mr. Winthrop W. Aldrich

Mr. Walter Lichtenstein, Secretary of the  
Federal Advisory Council

Mr. Lichtenstein read the following statement with respect to  
Bill S. 2344 which relates to corporate trusteeships and which was re-  
cently introduced in the Senate at the instance of the Securities and  
Exchange Commission:

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"The Federal Advisory Council wishes to call the attention of the Board of Governors of the Federal Reserve System to S. 2344 dealing with corporate trusteeships.

"The Council feels strongly that the imposition of some of the liabilities as provided in the bill would create a situation where banks of deposit could not with safety to themselves or to the banking system as a whole accept corporate trusteeships.

"The Council believes that if banks of deposit declined corporate trusteeships the resulting loss of revenue, particularly at the present time, would weaken the banking system and would not be in the public interest. Broadly speaking, no corporations other than banks of deposit have either the financial responsibility or the experience which qualify them to act as corporate trustees."

Upon inquiry from Mr. McKee as to what action the Council would expect the Board to take in connection with the statement, Mr. Brown said it was felt that the Board might consider the advisability of taking the matter up with the Securities and Exchange Commission and the appropriate committees of Congress for the purpose of stating the Board's attitude toward the bill, as it would affect banks throughout the country which are exercising trust powers. The suggestion was then made by Mr. McKee that in these circumstances the Council should file a more detailed statement of the reasons for its position as set forth in the above statement.

Chairman Eccles outlined briefly the discussions which were had by Mr. Ransom and members of the Board's staff with Commissioner Douglas and members of the staff of the Securities and Exchange Commission in connection with preliminary drafts of the bill and stated that in such discussions Mr. Ransom and members of the Board's staff had raised various questions and offered a number of suggestions, some of which were

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not adopted, and that it was understood by Commissioner Douglas that the Board as such had not considered the bill and that the Board would feel free to express its views and to make suggestions with respect thereto if requested by any committee of Congress. At the conclusion of a discussion Mr. Smith said the Council would prepare and send to the Board a brief in support of the position taken in the statement submitted by the Council.

Mr. Smith stated that the Council would be interested in knowing the present status in the House of Representatives of the so-called Patman Bill. Chairman Eccles said that Representative Patman had discussed the matter with him, that he understood that the group associated with Representative Patman had done considerable work on the bill, but that it was considered that the work that had been done was in the nature of groundwork only, and that it was not expected that such a bill would be acted upon at the present session of Congress.

Mr. Smith inquired as to the progress of the movement on the part of certain State and municipal authorities to bring about an amendment to Section 19 of the Federal Reserve Act which would permit the payment of interest on public funds deposited in member banks. It was stated that so far as the Board knew there were no definite developments in the matter, although it was understood that the problem had been met in some States by revision of State laws. It was pointed out that the attempt to obtain such an amendment might result in raising the broader question of



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repeal of the prohibition of the payment of interest on demand deposits of all kinds.

Mr. Smith advised that, in order to meet the convenience of members of the Council attending the annual convention of the American Bankers Association beginning on October 11, 1937, and with the expectation that some members of the Board may be absent from Washington during September, the Council, in the absence of objection by the Board, would postpone its next meeting from September 20 and 21 to October 7 and 8, 1937. The Council was advised that the postponement was agreeable to the Board.

Chairman Eccles referred to a discussion with the members of the Council yesterday of the desirability of developing a more general interest on the part of banks throughout the country in the Treasury bill market and a further discussion of this matter ensued, with special reference to the factors of yield rates and maturities.

There followed a discussion of the recent decline in prices of Government securities and the treatment of depreciation on Government securities held by banks.

Statements were made by the individual members of the Council with respect to business conditions in their respective districts which indicated that, while there had been some recession in business activity in some districts, the volume of business in all districts was being maintained at a satisfactory level and the recession was apparently

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temporary in character. Some districts were feeling the effects of labor troubles. The outlook for agriculture was reported as being favorable in all districts with the possible exception of the Tenth Federal Reserve District, in certain portions of which there was a shortage of moisture. Some of the members reported an improvement in the real estate situation but that the shortage and high cost of skilled labor was having an adverse effect on the volume of new construction. Generally speaking, there was an increased demand for credit in the various districts, particularly Florida, but the increase in demand was not in proportion to the larger volume of business activity.

Thereupon the meeting adjourned.

Chester Moriel  
Secretary.

Approved:

W. S. Lewis  
Chairman.