

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 13, 1937, at 10:45 a. m.

PRESENT: Mr. Eccles, Chairman (part of meeting)
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. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Dreibelbis, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division
of Examinations

Mr. Ransom submitted for consideration the following statement of procedure which he had discussed with individual members of the Board prior to this meeting:

"The Board shall meet regularly on Tuesday and Friday of each week. The forenoon of these two days shall be devoted first to matters on the regular docket, which shall be taken up in order and disposed of or laid upon the table. Any member of the Board or the staff, who has a matter to come before the Board for consideration at these meetings, will notify the Secretary's office not later than noon the preceding day and the Secretary's office shall prepare the docket from these notices and shall circulate it not later than three o'clock on the same day. Matters may not be put upon the docket later than noon on Monday and Thursday. Matters for consideration at Board meetings shall, wherever possible, be circulated to all members of the Board before being considered at meetings. After the regular docket has been disposed of, other subjects not on the docket may be considered for Board action.

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"Wherever any member of the Board has a matter for Board consideration, which is placed upon the docket, in order to conserve the time of the Board members, it is suggested that the member shall be prepared to submit at the time the matter is reached on the docket a resolution covering his recommendations on this specific matter. Should the member not be prepared to make a specific recommendation at the time, he shall then be prepared to present the reasons both for and against the proposal that is to be considered.

"The Board may meet in an informal executive session on Tuesday and Friday afternoons at two thirty o'clock. The question of whether or not to so meet shall be decided before the adjournment of the morning meeting. At executive sessions any matter may be considered, and there shall be no formal docket for these meetings and no final action shall be taken at these meetings nor any minutes kept of the discussions unless the Secretary of the Board is requested to attend and record all proceedings.

"The Board shall be subject to call at any time at the request of any member of the Board."

Upon motion by Mr. Broderick the foregoing procedure was approved unanimously.

Mr. Ransom referred to an amendment proposed by Senator Herring to S. 2344, Trust Indenture Act of 1937, which would substitute for the bill as introduced by Senator Barkley an amendment to subsection 11(k) of the Federal Reserve Act adding to the subsection three new paragraphs and placing additional responsibilities on the Board in connection with the exercise of trust powers by national banks with respect particularly to trust indentures. The proposed amendment had been circulated among the members of the Board with a memorandum dated July 7, 1937, from Mr. Ransom. Mr. Ransom stated that it did not appear from conversations which he had had recently with interested parties that the amendment referred to or any other amendment to S. 2344 which would place the responsibility for the administration of the legislation with the Board

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rather than with the Securities and Exchange Commission was being given serious consideration and that it did not appear that any action need be taken by the Board with respect to the amendment proposed by Senator Herring. The other members of the Board concurred in the opinion expressed by Mr. Ransom.

Reference was made to a letter addressed to Chairman Eccles under date of July 2, 1937, by Senator Smith, Chairman of the Committee on Agriculture and Forestry, transmitting a copy of bill S. 1990 (Thomas bill) relating to the control of commodity prices through the regulation of the value of the dollar and requesting that, if possible, a report be submitted on the bill prior to hearings on the proposed legislation which will be held in the near future. There were distributed among the members of the Board copies of a draft of a reply to Senator Smith's letter which had been prepared by Mr. Goldenweiser and Mr. Upham of the Treasury Department.

At this point Chairman Eccles joined the meeting.

During a discussion of the draft of reply Mr. Davis suggested that the Board endeavor to agree upon a general statement of principles which would be applicable to the major questions involved in various bills before Congress having as their objective currency or price stabilization, with a view to using such a statement in replying to the request received from Senator Smith and any similar requests.

At the conclusion of the discussion Mr. Goldenweiser was requested to draft such a statement, copies of which would

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be furnished to the members of the Board for study prior to consideration at a meeting to be held at 10:30 a. m. on Thursday, July 15, 1937.

Chairman Eccles referred to the conferences which had been held from time to time by Mr. Morrill with Mr. W. G. Distler, Vice President of the George A. Fuller Company, regarding the progress being made on the Board's new building. He referred to the fact that under the contract the building was to have been available on June 1, 1937, but that it had become more and more evident as time went on that there would be a considerable delay in completion, and that there was no certainty as to a date when it would be ready for occupancy. In view of these circumstances, Chairman Eccles said that, after discussing the situation with Messrs. Ransom and McKee together with Messrs. Morrill and Clayton, he had called Mr. Lou R. Crandall, President of the George A. Fuller Company, on the telephone on the afternoon of July 9 and had advised him that satisfactory progress was not being made, that the promises as to dates of completion which had been made by Mr. Distler had not been fulfilled, that it appeared that the company was evidently not employing a sufficient number of men and was not doing any overtime work, and that the delay was resulting in considerable expense and inconvenience to the Board. Mr. Crandall replied, Chairman Eccles said, that while he was leaving for Europe the next day, he would take the matter up immediately and leave it in good hands and gave assurance that any necessary action would be taken. Chairman Eccles stated that on the morning of July 10 Mr. Distler called on him and discussed the matter, that additional work

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is now being done, and that Mr. Distler had renewed his promise to make the building available for occupancy by July 26. Chairman Eccles added that Mr. Distler and he had agreed to make a joint inspection of the building on the afternoon of July 15 to determine the progress and status of the work and, if possible, the date upon which it will be made available. Mr. Morrill added that in the conversation with Mr. Distler attention was called to the fact that Mr. Morrill was under instructions from the Board to withhold a sufficient amount from the voucher for work done in June to make up the full 10% provided for under the terms of the contract, and that it was understood that the Board would give further consideration to this payment after the inspection which was to be made on Thursday afternoon July 15, 1937.

Mr. Morrill said that this morning, July 13, Mr. Distler had raised the question whether the staff in the offices in the Shoreham building would be moved on July 23 or 24 as Mr. Distler contended that the necessary space could be made ready by that time. Mr. Morrill stated that he told Mr. Distler that he felt that the answer to that question should be deferred until after Thursday of this week and that Mr. Distler agreed. All of the members of the Board concurred in the suggestion that it would be undesirable to occupy any portion of the building until the entire building is made available and that arrangements should be made to move all of the offices of the Board on the weekend following the date on which the entire building is ready for occupancy.

Chairman Eccles then advised the members of the Board of a conversation which he had had on July 9, 1937, with Senator Radcliffe of

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Maryland with respect to the proposed plan of the Union Trust Company of Maryland, Baltimore, Maryland, for liquidation of the City Certificates Corporation. Senator Radcliffe stated, Chairman Eccles said, that Mr. Benjamin H. Brewster, Jr., Chairman of the Executive Committee of the bank, had asked that arrangements be made for him to meet with the Board for a further discussion of the matter. Chairman Eccles stated that he had advised Senator Radcliffe that the Board had spent considerable time on the proposal and that if Mr. Brewster desired to pursue it further he should take it up with Mr. McKee as the member of the Board having primary supervision of such matters. Senator Radcliffe stated, Chairman Eccles said, that he did not differ with the position taken by the Board with respect to the proposed plan of liquidation and that he had recommended to the parties concerned that before proceeding further the consent of the holders of certificates of beneficial interest and stockholders of the bank to the plan be obtained.

During Chairman Eccles' statement Mr. Wingfield, Assistant General Counsel, joined the meeting.

It was stated that the extension of time granted at the meeting of the Board on June 30, 1937, to Mr. T. O. Morton, President and Director of the Taylor National Bank, Campbellsville, Kentucky, to file a brief in connection with his citation by the Board under section 30 of the Banking Act of 1933 to show cause why he should not be removed as director and officer of the bank expired yesterday and that, therefore, all of the information to be considered by the Board in reaching a decision in the matter was now before it. Copies of a memorandum prepared

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by Mr. Dreibelbis under date of July 9, 1937, containing a summary of the charges made and of the evidence offered by representatives of the Comptroller of the Currency at the hearing in St. Louis on June 7, 1937, had been sent to the members of the Board on July 12.

It was agreed that the matter should be taken up for consideration at the meeting on Thursday, July 15, 1937.

At this point Chairman Eccles withdrew from the meeting and Mr. Vest, Assistant General Counsel, entered the room.

There was presented a draft of a letter to the French American Banking Corporation, New York, New York, referring to the Board's letter to the Corporation under date of March 12, 1937, and stating that pursuant to the request contained in the Corporation's letter of June 9 the Board was amending the agreement of June 25, 1919, as amended, between the Corporation and the Board, to provide that the Corporation shall maintain against all deposits received in the United States a reserve of not less than 13%. The letter had been circulated among the members of the Board and Mr. Broderick had suggested that, inasmuch as the Corporation was a competitor of all large banks in New York for French deposits, and as, in his opinion, there was no reason why it should have an advantage over member banks with respect to reserve requirements, he would like to have the letter considered at a meeting of the Board. During the ensuing discussion it was pointed out that, in response to the Board's letter of March 12, the French American Banking Corporation, under date of March 16, had advised that it did not desire

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to request a change in the agreement but might subsequently discuss the matter with the Board, and under date of June 9 had requested that the amendment to the agreement referred to in the Board's letter of March 12, 1937, be made.

At the conclusion of the discussion, Mr. Broderick moved that counsel be requested to prepare a letter to the French American Banking Corporation advising that the Board had reconsidered the matter and was of the opinion that the agreement should not be changed and that the Corporation should continue to maintain reserves in the same amount as are required by law to be maintained by member banks located in central reserve cities.

Carried unanimously.

Mr. Broderick then moved that counsel also be requested to prepare an amendment to the existing agreement with the First of Boston International Corporation, Boston, Massachusetts, and an amendment to Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, (which would apply to The Chase Bank, New York, New York, the only corporation organized under the provisions of section 25(a) of the Federal Reserve Act now in operation), which would substitute for the present requirement, that reserves of 13% be maintained on deposits received in the United States, a requirement that the respective corporations maintain reserves in the same amount as are required by law to be maintained by member banks located in central reserve cities.

Carried unanimously.

There was then presented a draft of letter to Mr. Logan, Vice President and General Counsel at the Federal Reserve Bank of New York,

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reading as follows:

"Receipt is acknowledged of your letter of April 30, 1937 requesting the Board's approval of the payment of \$3,506.47 to Davis Polk, Wardwell, Gardner & Reed, Esqs., for services and expenses in the case of Finkelstein v. the Federal Reserve Bank of New York as well as your further letter of June 23, 1937 addressed to Mr. Walter Wyatt, giving further information with respect to the extent of the services of the aforesaid attorneys.

"The Board has carefully considered the contents of both letters and since your bank feels that the services of these attorneys have been of great value and that their bill is reasonable, you are advised that the Board authorizes the payment to them of \$3,506.47 as requested."

After discussion of the letter in the light of a memorandum addressed to the Board by Mr. Dreibelbis under date of July 2, 1937, Mr. Ransom moved that the letter be approved.

Carried, Mr. Broderick not voting.

At this point Messrs. Thurston, Wyatt, Paulger, Goldenweiser, Smead, Dreibelbis, Leonard, Wingfield 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 July 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. Drinnen, First Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"In accordance with the request contained in your letter of July 9, the Board approves the continuation of the temporary assignment of Mr. Montford H. Hughes to the position of General Clerk, Fiscal Agency Department, at his present salary of \$2,220 per annum, which is \$420 in excess of the maximum provided in the personnel classification plan for this position, for a period not to exceed six months from July 15, 1937."

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 July 6, 1937, advising that your Executive Committee has recommended that the leave of absence granted Mr. Carol L. Pitman in order that he might assist the Federal Deposit Insurance Corporation be further extended to December 31, 1937, subject to the approval of the Board of Governors and the Retirement System.

"The Board interposes no objection to such an extension, and it is assumed that the matter, so far as it affects the Retirement System, has been referred to the Retirement Committee."

Approved unanimously.

Letter to Honorable Ambrose J. Kennedy, Chairman, Committee on Claims, House of Representatives, reading as follows:

"This refers to your letter of June 2, 1937, addressed to Chairman Eccles, inclosing a copy of the bill, H. R. 6319 'For the Relief of Banks Business College'.

"As you were advised in our letter of June 17th, the Board did not have sufficient information on which to base a reply and, accordingly, communicated with the Federal Reserve Bank of Philadelphia regarding the matter. The Board has now received from the Federal Reserve Bank of Philadelphia a statement with regard to the facts of this matter, and there are inclosed copies of the statement and of two exhibits attached thereto.

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"We hope that the inclosed statement will give you the information which you desire in this connection."

Approved unanimously.

Letter to Mr. Schaller, Chairman, Leased Wire Committee, reading as follows:

"Reference is made to your letter of May 25 and to my reply of May 28, 1937, with respect to a survey of the Washington-Atlanta, Washington-Richmond, Washington-Cleveland, Washington-Philadelphia, and New York-Boston circuits of the main lines of the Leased Wire System to determine whether the adoption of TWX service on these circuits would be advisable.

"The American Telephone and Telegraph Company has submitted a report under date of July 1, 1937, a copy of which is attached, recommending the installation of TWX equipment on the first four circuits referred to. In a conversation with a representative of the company on July 7 he stated that the study of the New York-Boston circuit had been referred to the New York office of the company and that he would ask that office to expedite the recommendation as much as possible.

"If, as a result of these recommendations and the recommendations which it is understood have been or will be submitted to you by the American Telephone and Telegraph Company with respect to the Chicago-St. Louis, Chicago-Kansas City and Chicago-San Francisco circuits, the present services on all main line circuits except Chicago-New York, Chicago-Washington, and Washington-New York, are changed to TWX installations, consideration should be given to the question whether the delays which may occur in the various offices while waiting to accumulate sufficient business to justify a connection with another office will interfere to any serious extent with wire transfers of funds and securities and other rush telegrams. Therefore, the Board suggests that, before the recommendation of the Leased Wire Committee as to the action to be taken on the recommendations of the Telephone Company is submitted, the Committee take the matter up with the Federal reserve banks and ascertain whether they would have any objection to such delays or whether they have any comments or suggestions to make with respect to the proposed installations.

"The local representative of the Telephone Company has informed this office that the company's Chicago representative has been advised of the recommendations contained in the attached letter and that he will be pleased to discuss the matter with you should you care to do so.

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"The general use of TWX equipment will afford an opportunity to effect savings in expense by reducing wherever possible the number of telegrams transmitted over the leased wires. In view of this situation, it is felt that the question presented in your telegram of June 28, 1937, with respect to the use of code words in telegrams and the method of counting words in messages transmitted over the leased wires should be considered in connection with the determination of the question of the general instructions to be issued by each Federal reserve bank with respect to communications sent by the bank over the leased wires, the use of code words in such communications, the policy to be followed by the bank with respect to delaying messages while waiting to accumulate sufficient business to justify asking for a connection, and other related matters which would have as their objective the use of the TWX service in the most economical manner possible consistent with the purposes of the Leased Wire System. It is suggested that this problem be studied by the Leased Wire Committee and that when a tentative draft of such instructions has been prepared by the Committee it be submitted to the Federal reserve banks and the Board for their comments and suggestions.

"In regard to the basis for counting words in messages sent over the Leased Wire System, the Board is agreeable to the adoption of the basis recently accepted by the telegraph companies. Such a procedure, however, would result in a substantial increase in the per-word cost of messages sent over the Leased Wire System, including the reimbursable messages sent for the account of various Government agencies. In order to ascertain as nearly as possible to what extent the per word cost would be increased by counting each complete number in a telegram as one word, this office, prior to the announcement by the telegraph companies of the adoption of the new basis referred to above, made a count of all messages sent from the Washington office during the month of May on the old basis as well as on the basis of counting a complete number as one word. On the old basis 504,985 words were sent by the Washington office as compared with 247,627 words on the new basis or slightly over 49% of the number of words on the old basis. The number of words reported as having been sent by the Federal reserve banks was reduced in this proportion and the cost per word figured on the changed basis. Under the present procedure the cost per word was \$.015764906 based on a total of 1,360,990 words as compared with a per-word cost of \$.03214932 on the basis of 667,382 words under the new method of counting. While the per-word cost on the basis now used by the telegraph companies for counting would reduce the higher per-word cost substantially, it is believed

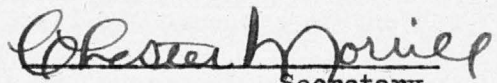
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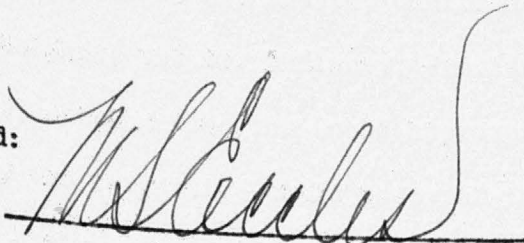
"that it would still exceed $2\frac{1}{2}\%$ and if that cost were doubled to cover the cost of transmitting reimbursable messages over the main lines and a branch line it would undoubtedly be regarded by the Government agencies as excessive. Accordingly, it is suggested that, before a change is made in the present method of counting, this question be considered by the Leased Wire Committee and a recommendation made as to the action to be taken."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.