

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, July 30, 1937, at 11:15 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
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. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Chairman Eccles referred to the statement on "Objectives of Monetary Policy", which was approved at the meeting of the Board yesterday for transmission to Senator Smith as Chairman of the Committee on Agriculture and Forestry, and suggested that a change be made in the next to the last paragraph of the statement before it is sent to Senator Smith.

The matter was discussed and, by unanimous vote, the paragraph was amended to read as follows:

"Conclusion. To sum up, the Board believes that economic stability rather than price stability should be the general objective of public policy. It is convinced that this objective cannot be achieved by monetary policy alone, but that the goal should be sought through coordination of monetary and other major policies of the Government which influence business activity, including particularly policies with respect to taxation, expenditures, lending, foreign trade, agriculture and labor."

There was presented for consideration by the Board a draft of resolution prepared by Counsel pursuant to the request made at the

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meeting of the Board on July 13, 1937, and reading as follows:

"BE IT RESOLVED that the first sentence of the third paragraph of section XIV of Regulation K entitled 'Banking Corporations Authorized To Do Foreign Banking Business Under The Terms Of Section 25(a) Of The Federal Reserve Act' is amended, effective September 1, 1937, to read as follows:

'Against all demand deposits and time deposits received by the Corporation in the United States a reserve shall be maintained in the percentages required to be maintained by member banks of the Federal Reserve System located in central reserve cities, provided that in no event shall such reserve be less than 10 per cent of the aggregate amount of all demand deposits and time deposits received in the United States.'

Upon motion, the resolution was adopted by unanimous vote.

In connection with the above matter consideration was given to a letter to the Presidents of all Federal reserve banks, reading as follows:

"In order that all foreign banking corporations operating under the supervision of the Board pursuant to the provisions of either section 25 or section 25(a) of the Federal Reserve Act may be placed on substantially the same basis with respect to reserve requirements, the Board has amended, effective September 1, 1937, the first sentence of the third paragraph of section XIV of Regulation K to read as follows:

'Against all demand deposits and time deposits received by the Corporation in the United States a reserve shall be maintained in the percentages required to be maintained by member banks of the Federal Reserve System located in central reserve cities, provided that in no event shall such reserve be less than 10 per cent of the aggregate amount of all demand deposits and time deposits received in the United States.'

"For your information, you are advised that only one of the foreign banking corporations operating under the supervision of the Board pursuant to the provisions of section 25 of the Federal Reserve Act is not now required to maintain reserves against deposits received in the United States in the percentages required

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"to be maintained by member banks located in central reserve cities. The Board is taking appropriate steps to require the same reserves to be maintained by this corporation."

Approved unanimously, together with three letters reading as follows:

Letter to The Chase Bank, New York, New York:

"In order that all foreign banking corporations operating under the supervision of the Board pursuant to the provisions of either section 25 or section 25(a) of the Federal Reserve Act may be placed on substantially the same basis with respect to reserve requirements, the Board has amended, effective September 1, 1937, the first sentence of the third paragraph of section XIV of Regulation K to read as follows:

'Against all demand deposits and time deposits received by the Corporation in the United States a reserve shall be maintained in the percentages required to be maintained by member banks of the Federal Reserve System located in central reserve cities, provided that in no event shall such reserve be less than 10 per cent of the aggregate amount of all demand deposits and time deposits received in the United States.'

"The proviso in the above-quoted amendment is made necessary by the last sentence of the sixth paragraph of section 25(a) of the Federal Reserve Act.

"Beginning September 1, 1937, your Corporation should maintain reserves in accordance with the provisions of the regulation as amended. At present, member banks in central reserve cities are required to maintain reserves of 26 per cent against their demand deposits and 6 per cent against their time deposits.

"For your information, you are advised that only one of the foreign banking corporations operating under the supervision of the Board pursuant to the provisions of section 25 of the Federal Reserve Act is not now required to maintain reserves against deposits received in the United States in the percentages required to be maintained by member banks located in central reserve cities. The Board is taking appropriate steps to require the same reserves to be maintained by this corporation."

Letter to Mr. W. C. Thompson, Vice President, French American Banking Corporation, New York, New York:

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"This refers to your letter of June 9, 1937 requesting an amendment to the agreement under which your corporation is operating, pursuant to the provisions of section 25 of the Federal Reserve Act, so as to provide that the corporation maintain a reserve of 13 per cent against all demand deposits and time deposits received in the United States.

"On March 12, 1937 the Board advised your corporation that it would be willing to modify the terms of the agreement under which the corporation is operating so as to provide that it maintain a reserve of 13 per cent against all deposits received in the United States. On March 16, 1937 you acknowledged receipt of this letter and stated that at that time the corporation did not desire to request any change in the agreement.

"Since writing the letter of March 12, 1937, the Board of Governors has reconsidered this matter and has reached the conclusion that corporations operating under agreements with the Board pursuant to section 25 of the Federal Reserve Act and corporations organized under section 25(a) of the Federal Reserve Act should all be required to maintain reserves against deposits received in the United States in the percentages required to be maintained by member banks located in central reserve cities. As you know, member banks in central reserve cities are now required to maintain reserves of 26 per cent against their demand deposits and 6 per cent against their time deposits. Accordingly, the Board is unwilling to change the provisions of the agreement with your corporation in regard to this matter.

"For your information, you are advised that the Board is taking appropriate steps to bring all outstanding agreements entered into pursuant to section 25 of the Federal Reserve Act into conformity on this point and has also amended the provisions of its Regulation K so as to require corporations organized under section 25(a) to maintain against deposits received in the United States reserves in the same percentages as are required to be maintained by member banks in central reserve cities."

Letter to the First of Boston International Corporation, Boston, Massachusetts:

"Under date of May 11, 1935, your corporation executed an agreement, pursuant to the provisions of section 25 of the Federal Reserve Act, which agreement provided 'that against all deposits received in the United States the Corporation shall maintain a reserve of not less than 13 per cent'.

"The other two corporations now operating under the supervision of the Board pursuant to the provisions of section 25 of the Federal Reserve Act are required to maintain reserves against demand deposits and time deposits received in the United States

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"In the percentages required to be maintained by member banks located in central reserve cities. Member banks in central reserve cities are now required to maintain reserves of 26 per cent against their demand deposits and 6 per cent against their time deposits.

"In order to place all foreign banking corporations operating under the supervision of the Board pursuant to the provisions of section 25 on the same basis with respect to reserve requirements, the Board has decided that the agreement of May 11, 1935 should be amended so as to require your corporation to maintain reserves in the percentages required to be maintained by member banks in central reserve cities. In order to accomplish this purpose, the Board desires that section 1(c) of the agreement of May 11, 1935, be amended to read as follows, such amendment to become effective September 1, 1937:

'That against all demand deposits and time deposits received in the United States the Corporation shall maintain reserves in the percentages required by law to be maintained by member banks of the Federal Reserve System located in central reserve cities, which reserves may consist of cash in vault or balances with a Federal Reserve bank or any member bank;'

"For your information, you are advised that the Board has amended the provisions of Regulation K relating to foreign banking corporations organized under section 25(a) of the Federal Reserve Act so as to require such corporations to maintain against all deposits received in the United States reserves in the percentages required to be maintained by member banks in central reserve cities.

"It will be appreciated if your corporation will advise the Board of Governors of its acceptance of this proposed amendment to section 1(c) of the agreement of May 11, 1935 and forward to the Board a copy of a resolution of the board of directors of your corporation authorizing such acceptance."

At this point Messrs. Thurston, Wyatt, Goldenweiser and Dreihelbis 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 29, 1937, were approved unanimously.

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Telegrams to Mr. Roelse, Assistant Secretary pro tem of the Federal Reserve Bank of New York and Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on July 29, 1937, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Telegram to Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Your letter of July 26. In view of your recommendation Board extends to September 20, 1937 time within which 'First-Owensboro Bank & Trust Company', Owensboro, Kentucky, may accomplish membership in the System. Please advise bank accordingly."

Approved unanimously.

Letter to "The First National Bank of Ely", Ely, Nevada, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for permission to exercise fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, guardian of estates, assignee, receiver, and committee of estates of lunatics, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

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Letter to Mr. Fry, Vice President of the Federal Reserve Bank of Richmond, prepared in accordance with the action taken at the meeting of the Board on July 20, 1937, and reading as follows:

"This refers to the application of The First National Bank of Kings Mountain, Kings Mountain, North Carolina, for permission to act as trustee under deeds of trust to secure debts.

"It is understood that the applicant bank has been requested by one of its customers to act as trustee under a mortgage securing an issue of bonds and that it is not the intention of the bank to act as trustee under mortgages to secure debts except in this one instance. It is also understood that the officers of the bank have not had any fiduciary experience, that the bank does not desire to establish a trust department, and does not intend to apply for additional fiduciary powers.

"As you know, under the provisions of the Board's Regulation F a national bank which obtains permission to exercise fiduciary powers is required to establish a trust department which shall be separate and apart from every other department of the bank and shall be placed under the management and immediate supervision of an executive officer qualified and competent to administer trusts. The regulation also provides that, in passing upon an application of a national bank for permission to exercise fiduciary powers, the Board will give special consideration, among other things, to the qualifications and experience of the proposed executive officer of the trust department.

"The circumstances in this case were discussed at a meeting of the Board. In view of the facts referred to above, it seems clear that the bank does not contemplate complying with the requirements of the regulation and, in fact, it would not seem that it would be justified in incurring the necessary expense in order to do so merely for the purpose of handling one trust. In view of all the circumstances, therefore, the Board does not feel that it should approve the application of The First National Bank of Kings Mountain, and you are requested to advise that bank accordingly."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of

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Richmond, reading as follows:

"The Board has given careful consideration to your letter of July 27, 1937, and to the views which you have expressed to the Board with respect to the proposed plan for liquidation of the City Certificates Corporation of Baltimore, Maryland. The plan provides that the stock of the 'Union Trust Company of Maryland', Baltimore, Maryland, held by the City Certificates Corporation, be distributed to holders of certificates of beneficial interest issued by the City Certificates Corporation and to stockholders of that corporation. Under the provisions of condition of membership numbered 27, to which the Union Trust Company of Maryland is subject, however, none of the shares of stock of such bank acquired by the City Certificates Corporation shall be sold or transferred by the City Certificates Corporation except with the written consent of the Board of Governors.

"In view of all of the circumstances the Board of Governors, at a meeting, decided to request the Federal Reserve Bank of Richmond to advise the Union Trust Company of Maryland that the Board, without having approved the proposed transfer of stock under the revised plan submitted by the trust company, will give consideration to a request for a waiver of the requirement as to consent to such transfer of stock contained in condition of membership numbered 27, if and when

1. The plan has been submitted in writing to the holders of the certificates of beneficial interest issued by the City Certificates Corporation and to the stockholders of the Corporation, in terms clearly and simply setting forth the details of the plan and stating specifically not only what the certificate holders would receive under the proposed plan but also what they would give up;
2. Such plan has been approved in writing by not less than two-thirds of the holders, who hold not less than three-fourths in amount, of the certificates of beneficial interest outstanding, exclusive of the certificates upon which cash payments would be made in full; and
3. Such plan has been approved in writing by the stockholders owning at least two-thirds of the outstanding stock of the City Certificates Corporation.

"Please advise the trust company accordingly."

Approved unanimously.

Letter to the Presidents of the Federal reserve banks, reading as follows:

"In its letter of August 28, 1935 (X-9301), the Board of

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Governors submitted to the Federal Reserve banks for comments and suggestions a draft of a revision of Regulation A relating to discounts for member banks by Federal Reserve banks, and with its letter of October 21, 1935 (X-9346), inclosed copies of memoranda covering the recommendations made by the Board's staff with respect to the principal suggestions of the Federal Reserve banks in connection with the proposed regulation.

There are inclosed herewith six copies of a revised draft of the proposed Regulation A and of a proposed letter regarding marginal collateral to be transmitted to the Federal Reserve banks in connection with the issuance of Regulation A. The inclosed draft of the regulation contains a number of changes, and your attention is invited particularly to the provisions of subsection (d) of section 1 of the regulation regarding the kinds of collateral which may be used as security for advances under section 10(b) of the Federal Reserve Act; to the omission from subsection (a) of section 2 of the provisions under which paper is ineligible for discount if its proceeds are advanced to some other borrower; to the provisions of subsection (e) of section 3 of the regulation regarding the amount of credit extended on the security of obligations of the United States; to the omission of the words 'or between foreign countries' in paragraph (1) of subsection (b) of section 6 regarding bankers' acceptances; to the omission in paragraph (3) of said subsection (b) of the words 'or issued by a grain elevator or warehouse company duly bonded and licensed and regularly inspected by State or Federal authorities with whom all receipts for such staples and all transfers thereof are registered and without whose consent no staples may be withdrawn'; to the new footnote 9 regarding bankers' acceptances; to the recommendations in the appendix relating to real estate loans; and to the recommendations in the appendix relating to loans upon installment paper; as well as to the General Principles included as a preface to the regulation and the proposed letter to the Federal Reserve banks regarding marginal collateral.

Subsection (d) of section 1 of the regulation contains a list of specified classes of collateral security upon which it may be expected that member banks will more readily be able to obtain credit from the Federal Reserve banks under the provisions of section 10(b) of the Federal Reserve Act than upon other classes of security not specifically mentioned. It has been suggested that the inclusion of this list of classes of collateral security and of the recommendations contained in the appendix to the regulation as to the standards which should be observed by member banks in making installment loans and loans upon real estate may serve to foster and encourage sound practices by member banks in making loans and investments.

As you know, with the exception of paper of cooperative marketing associations and of certain factors, paper the proceeds of which are advanced or loaned to some other borrower, such as paper made by finance companies, has heretofore been

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"ineligible for discount at Federal Reserve banks. You will note from subsection (a) of section 2 of the inclosed draft of the regulation that this restriction on paper whose proceeds are loaned to others has been eliminated, so that notes, drafts or bills of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower for a commercial, agricultural or industrial purpose would be eligible for discount. Like any paper offered for discount, however, such a note, draft or bill would have to comply with the other requirements of the regulation as to eligibility for discount, including the maturity limitations of 90 days in the case of commercial paper and nine months in the case of agricultural paper. If paper is ineligible for discount because its maturity is in excess of these limitations, it may nevertheless be accepted by a Federal Reserve bank as security for a member bank's promissory note under the provisions of section 10(b) of the Federal Reserve Act, as provided in subsection (d) of section 1 of the regulation.

"It will be observed that under the provisions of paragraph (1) of subsection (b) of section 6 it would no longer be possible to discount bankers' acceptances drawn to finance the shipment of goods between foreign countries. This change is contained in the revised draft of the regulation in view of the disclosures regarding acceptances of this kind in the report of the Federal Reserve Committee on Acceptance Practice. In view of the fact that Regulation B provides that, with certain exceptions, a banker's acceptance must be eligible for discount in order to be eligible for purchase by Federal Reserve banks in the open market, this change would also prevent the purchase of bankers' acceptances drawn to finance the shipment of goods between foreign countries. However, the change would not prevent the financing through bankers' acceptances of the sale and distribution into the channels of trade abroad of goods exported from this country, in accordance with the ruling published at page 860 of the Federal Reserve Bulletin for 1927. Footnote 9 is intended to conform substantially to the recommendation contained in the report of the Federal Reserve Committee on Acceptance Practice.

"It will be appreciated if you will review the inclosed documents and furnish to the Board your comments and suggestions thereon before September 1, 1937. While the Board will, of course, be glad to have your views on any provision of the regulation to which you wish to call attention, the provisions contained in the draft of the regulation inclosed with the Board's letter of August 28, 1935, have already been the subject of careful consideration by the Federal Reserve banks, and it is hoped that in making suggestions to the Board regarding the revised draft you will give particular attention to the provisions which are mentioned in the second paragraph of this letter.

"It is requested that the regulation and the proposed letter be considered by the appropriate officers of your bank, but that they be not submitted to or discussed with anyone outside of the bank. Please have it clearly understood that the

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"regulation and proposed letter are not for publication and that the entire matter is to be dealt with in strict confidence."

Approved unanimously.

Letter to Honorable James M. Landis, Chairman, Securities and Exchange Commission, reading as follows:

"Enclosed are six copies of a tentative draft of a proposed general revision of Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, which has been prepared at the direction of the Board but which has not yet been acted upon by the Board. Additional copies may be had on request.

"You will note that this is a preliminary draft and that it is not for publication.

"Copies of this draft have been submitted confidentially for comments and criticisms to all Federal Reserve banks and through them to all national securities exchanges. It is anticipated that some of the exchanges and some of the Federal Reserve banks will submit their comments within two or three weeks, but that others will desire additional time. It has been suggested, however, that in any event all comments from the Reserve banks and the exchanges should reach the Board not later than September 15, 1937.

"It will be appreciated if the Commission will consider the draft in confidence, with every precaution against notice by the press, and submit to the Board in writing any comments, criticisms and suggestions that the Commission may care to present."

Approved unanimously.

Telegram to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"Referring your July 29 wire and telephone conversation Board waives republication of June 30 condition report of Bay City Bank and Trust Company, Bay City, Texas."

Approved unanimously.

Memorandum dated July 16, 1937, from Mr. Bethea, Assistant Secretary, stating that at its meeting on June 7, 1937, the Presidents' Conference approved the recommendations of its subcommittee contained in a report on the subject of "Developing a Method of Indexing and

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Otherwise Making Readily Available the Rulings, Interpretations, Instructions, etc., of the Board of Governors of the Federal Reserve System", and that it was the committee's recommendation that there be established and maintained by the Board a loose-leaf service embracing the following material:

1. The Board's regulations,
2. The Board's published Digest of Rulings
3. Board communications containing such of its rulings and interpretations of law or regulations as are still effective and are not contained in the new Digest of Rulings, and
4. One consolidated detailed index of the foregoing material and of those instructions of the Board which are still effective and are contained in the communications which were distributed to all Federal reserve banks.

The memorandum set forth the principal operations to be undertaken by the Board in connection with the establishment and maintenance of the service, and recommended, for the reasons stated in the memorandum, that the Board approve the recommendations of the subcommittee of the Presidents' Conference and authorize Counsel's Office to undertake the work involved in connection with the establishment and maintenance of the proposed service, with the understanding that the Secretary's Office will handle the administrative aspects of the task, and that the other divisions of the Board's organization will cooperate with respect to instructions which they originate. The memorandum also recommended that the Board authorize the Secretary's Office to incur such out-of-pocket expense, not to exceed \$3,000, as may be necessary for the purpose of establishing the proposed service, and such additional out-of-pocket expense as may be necessary from time to time to maintain

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the service.

Approved unanimously.

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

"Reference is made to your letters of July 6 and July 9, with respect to the handling of currency for member banks in the cities of Chicago and Detroit.

"The Board is pleased to note from your letters that you have been successful in eliminating almost entirely the unnecessary sorting of currency at the Detroit Branch and hopes that similar results may be obtained in the near future at all Federal Reserve banks and branches.

"In the light of existing circumstances the Board feels that it would be helpful to ascertain at this time what progress the Federal Reserve banks are making in this respect and, accordingly, has written a letter to Mr. Fleming, Chairman of the Presidents' Conference Committee on Free Services, suggesting that, if agreeable to his Committee, he ascertain at this time what progress has been made to date in eliminating the unnecessary sorting of currency for local member banks and what further results they expect to accomplish in this respect. A copy of the Board's letter to Mr. Fleming is inclosed."

Approved unanimously, together with a letter to President Fleming as Chairman of the Presidents' Conference Committee on Free Services, reading as follows:

"Under date of July 6 Mr. Schaller wrote to the Board with respect to the accomplishments of the Detroit Branch in eliminating unnecessary sorting of currency for Detroit banks, and stated in his letter that a copy had been sent to you as Chairman of the Presidents' Conference Committee on Free Services. On July 9 Mr. Schaller again wrote to the Board on this subject, and a copy of his letter of July 9 and of the Board's reply are inclosed.

"The Board has given careful consideration to this matter and believes it to be of sufficient importance to warrant special attention at this time. Accordingly, if agreeable to your Committee, it is suggested that you ask each Federal Reserve bank for information as to the progress it has made to date in reducing the expense connected with the handling of currency for local member banks. The Board is of the opinion that it would also be helpful if you would ascertain from

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"each Federal Reserve bank whether it expects to accomplish approximately the same results in this respect as has the Detroit Branch, and, if so, when it expects changes to that end to become fully effective."

Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of July 21 in regard to a proposed change in the contributory group life insurance policy of your bank, increasing somewhat the maximum insurance available to employees in various salary groups.

"It is noted that the gross cost to the bank under the present policy is about \$3,000, and that the actual cost during the year ending July 31, 1936, was slightly in excess of \$1,000, but that it is anticipated that for the year ending July 31, 1937, the bank will have an income of approximately \$700 under the policy. It is also noted that the gross cost of the proposed amended policy should not exceed \$4,500, and that the net cost is expected to be substantially less than this amount.

"The Board will interpose no objection to your continuing your contributory group life insurance contract amended as proposed with the understanding that you will bring the question of continuance of the policy to the Board's attention for further consideration in case you find at any time that the net annual cost to the bank is likely to be materially in excess of \$1,500."

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morice
Secretary.

Approved:

W. S. ...
Chairman.