

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, September 27, 1937, at 11:30 a. m.

PRESENT: 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

Consideration was 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 September 24, 1937, were approved unanimously.

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

"Reference is made to your letter of August 2, 1937, with regard to the matter of compliance by the Southern Arizona Bank and Trust Company, Tucson, Arizona, with its condition of membership requiring the pledge of collateral to secure trust funds deposited in its banking department.

"It is understood that the call for the special session of the Arizona Legislature did not include therein proposed legislation relating to security for trust funds deposited in the banking department of a bank exercising trust powers, but that the Southern Arizona Bank and Trust Company feels confident that at the next general session of the legislature a law will be enacted specifically authorizing State member banks in Arizona to pledge their assets to secure

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"such funds. The bank has requested the Board to defer for a few months more taking any action in regard to the present conflict between the provisions of its membership condition and those of existing State law regarding the handling of uninvested trust funds.

"If consideration of the proposed legislation were a matter of a few months the Board would be willing to defer compliance by the bank with the condition of membership until it could be determined whether or not the State Legislature would act favorably thereon. It is our understanding, however, that regular sessions of the legislature are held at two-year intervals and that the next session will not be held until January, 1939. The Board does not feel that the bank should defer compliance with the condition of membership in question for such an extended period of time and feels that some method should be worked out by the bank, with your cooperation, to bring its handling of trust funds into compliance with the requirements of the applicable condition of membership. If the Board should have been misinformed as to the date of the next regular session of the Arizona Legislature your advice in that connection will be appreciated.

"In connection with the above, it may be stated that it is understood that in some States a call for a special session of the legislature may be amended after the legislature is in session, so as to include proposed legislation other than that included in the original call. It is suggested, therefore, that, among other possible solutions of the matter, you may wish to consider with the bank the possibility of obtaining an appropriate amendment to the call for the special session of the Arizona Legislature.

"It will be appreciated if you will advise the Board of any changes in the present situation."

Approved unanimously.

Memoranda dated July 22, August 12 and August 30, 1937, transmitting for approval by the Board drafts of entries for the separate record required by Section 10 of the Federal Reserve Act to be kept by the Board covering actions taken by the Board on questions of policy during the year up to and including August 14, 1937. Copies of the drafts had been furnished previously to all of the members of the Board.

Approved unanimously.

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Letter dated September 25, 1937, to Mr. Schaller, Chairman of the Leased Wire Committee, reading as follows:

"Reference is made to your letter of September 14, 1937, with respect to the installation of TWX telegraph service on certain of the main lines of the Leased Wire System.

"In accordance with the suggestion of the Leased Wire Committee, arrangements have been made with the American Telephone and Telegraph Company for the conversion of the Chicago-San Francisco wire to TWX service as of October 1, 1937. A copy of the letter addressed to the Telephone Company in this connection is attached. It is understood that, as in the case of other circuits entering Chicago which have been changed to TWX, you will advise promptly after the first of each month the number of connections initiated by your office on the Chicago-San Francisco circuit and the number of additional minutes used on such connections during the preceding month.

"It is noted from your letter that the Leased Wire Committee recommends that the Cleveland-Washington, Richmond-Washington, and Atlanta-Washington circuits be converted to TWX service at such time as meets the convenience of this office and the banks concerned and that no change be made at this time in the type of service in use on the New York-Boston, Philadelphia-Washington, and Chicago-St. Louis circuits. It is the feeling of this office that the conversion of the Washington-Cleveland, Washington-Richmond, and Washington-Atlanta circuits to TWX service should be made one circuit at a time in order that the Washington office might have an opportunity to become thoroughly familiar with TWX operation before all installations are made. Accordingly, the matter will be taken up with the Federal Reserve Bank of Cleveland with a view to the conversion of the Cleveland-Washington circuit as soon as the necessary arrangements can be made. After the necessary experience has been acquired on this circuit, steps will be taken to effect the conversion of the other two lines referred to.

"No action will be taken with respect to the tentative draft of instructions relating to communications sent over the leased wires, referred to in the last paragraph of your letter, pending receipt of advice from you as to the consideration given to the suggestions contained in my letter of September 15, 1937."

Approved unanimously, together with
a letter of the same date to Mr. J. W. Adams,

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Division Manager, American Telephone and Telegraph Company, Washington, D. C., reading as follows:

"As a result of the survey recently made by your company, it has been decided that TWX equipment should be installed on an experimental basis on the Chicago-San Francisco circuit of the Leased Wire System in place of the present full-time leased wire facilities on that circuit. This office is advised by your Mr. DeBarbieri that the cost of the TWX service between the two points is \$2.00 for each three-minute call and \$.65 for each additional minute over the three-minute minimum. The equipment in each office will consist of a No. 19 teletypewriter machine which will be installed without cost. This machine is equipped with an automatic transmitter for which a monthly rental charge of \$25.00 is made, making a total monthly cost of \$50.00 for equipment. The contract covering the service will also provide that business in the minimum amount of \$10.00 will be originated at each end of the circuit during each month of its operation.

"It is desired that this new service be installed on the Chicago-San Francisco circuit to become effective October 1, 1937, with the understanding that it is to take the place of, and that your company agrees to discontinue as of the close of September 30, 1937, the existing leased wire under contract No. 2-8 between the Board of Governors and the American Telephone and Telegraph Company.

"It is understood that the TWX service between Chicago and San Francisco is not handled directly by the American Telephone and Telegraph Company but that the Illinois Bell Telephone Company, an associate of your company, will handle the service in Chicago and that the Pacific Telephone and Telegraph Company, also an associate of your company, will handle the service at San Francisco. It is further understood that you will obtain and submit to this office for execution the necessary contracts covering this service and that you will arrange to have the monthly vouchers covering the service rendered during the previous month forwarded to reach this office not later than the sixth day of the month. It is also understood that these vouchers will be rendered on the basis of the number and length of calls initiated by the respective offices so that the Illinois Bell Telephone Company will submit vouchers covering the calls initiated by Chicago and the Pacific Telephone and Telegraph Company will submit vouchers covering the calls initiated at San Francisco."

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Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

Frank Ransom
Vice Chairman.