A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, November 1, 1937, at 11:30 a.m.

PRESENT: 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:

Letter to Mr. Geery, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System decided some time ago that surveys should be made of the Bank Examination and Auditing Departments at all of the Federal Reserve Banks. There is attached a copy of a report of the survey of the Auditing Department of the Federal Reserve Bank of Minneapolis recently conducted by the Board's Examiners Jones and Cagle. An additional copy of the report is inclosed for President Peyton.

"While the survey indicates that the auditing function at the Federal Reserve Bank of Minneapolis in general is being performed in substantial conformity with the standards recommended by the Conference of Auditors of the Federal Reserve Banks held in Washington in November, 1936, the conclusions set forth by the examiners indicate a number of matters which merit consideration.

"It will be appreciated if you and the Auditing Committee of your board of directors and President Peyton will review this report of survey and give the Board the benefit of your reactions to the matters referred to above and any other statements concerning which you would like to express your views.

"The footnote of the letter transmitting the recommendations of the Conference of Auditors to Mr. George L. Harrison, Chairman of the Conference of Presidents of the..."
"Federal Reserve Banks, called attention to the confidential nature of the material contained in that report and other information relative to the auditing activities at the Federal Reserve Banks. As the inclosed report refers frequently to the Auditors' recommendations and also contains other information of a confidential nature concerning the activities of the Auditing Department of your bank, it will be appreciated if the report itself is not made available to the bank's employees and the officers directly in charge of the operating departments. Of course, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, your directors and such of the bank's officers as you and President Peyton deem advisable."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"There is attached a copy of a report of the survey of the Bank Examinations Department of the Federal Reserve Bank of San Francisco, recently conducted by Mr. C. E. Cagle of the Board's Division of Examinations. "It will be appreciated if you will review the attached report of the survey and give the Board the benefit of your reactions to any of the statements or conclusions concerning which you would like to express your views.

"Although the report should be regarded as confidential, the Board sees no objection to the report, or parts thereof, being submitted to, or discussed with, such of the bank's senior officers and directors as you deem advisable."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of October 12 enclosing a clipping from the Kansas City Times, of October 8, of an Associated Press item in regard to the weekly Federal Reserve bank condition press statement of the Board of Governors, and suggesting that the form of the Board's
"statement be amended so as to indicate definitely that such items as monetary gold, Treasury currency, money in circulation and Treasury cash do not represent items in the condition statement of the Federal Reserve banks.

"As you know, the first page of the Board's weekly release on the condition of Federal Reserve banks consists of a tabulation showing changes in member bank reserve balances and related items during the week and year, and a brief textual comment thereon. The 'related items' are arranged in two groups in the Board's statement, the first--including total Reserve bank credit, gold stock and Treasury currency--are items decreases in which reduce member bank reserve balances and increases in which add to member bank reserve balances. The second group--including money in circulation, Treasury cash, Treasury deposits with Federal Reserve banks and nonmember deposits and other Federal Reserve accounts--are items increases in which reduce member bank reserve balances and decreases in which add to member bank reserve balances. For example, for the week ending October 6, to which the enclosed clipping relates, increases of $10,000,000 in Reserve bank credit and $31,000,000 in gold stock and a decrease of $64,000,000 in Treasury deposits with Federal Reserve banks tended to increase member bank reserve balances, while increases of $49,000,000 in money in circulation, $35,000,000 in Treasury cash and $51,000,000 in nonmember deposits and other Federal Reserve accounts tended to decrease the amount of member bank reserve balances, with the net result of a decrease of $30,000,000 in such balances. A different arrangement of these items, showing separately the items derived in whole or in part from the Treasury daily statement, would, of course, tend to obscure the inter-relationship of the various items. In this connection, it may be worthwhile to point out that the first five tables of the Board's 1936 Annual Report are devoted to data on member bank reserve balances and related items and that two similar tables are carried in the Federal Reserve Bulletin (see pages 983 and 1008 of the October issue).

"It seems to us that some such arrangement as that contained in the weekly Federal Reserve bank condition statement and in the Annual Report, of member bank reserve balances and related items, is necessary in order to bring out the relationship between such items as monetary gold stock, money in circulation, and Reserve bank credit.

"For a rather complete discussion of the relationship of the items in question to member bank reserve balances,
"it is suggested that the financial editor of your local paper be referred to the article on the supply and use of member bank reserve funds appearing on pages 419-429 of the July, 1935, Federal Reserve Bulletin."

Approved unanimously.

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

"Consideration has been given to your letter of October 18, 1937 regarding the question whether section 32 of the Banking Act of 1933 would prevent Mr. Walter N. Stillman who is a partner in the firm of Evans, Stillman & Co., New York, New York, from serving at the same time as a director of Fulton Trust Company of New York. The question depends upon whether the firm is 'primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities' within the meaning of section 32.

The memorandum of counsel to your bank which you enclosed summarizes the information which you have received regarding the activities of the firm, and shows that syndicate participations and selling group commissions in connection with the flotation of new issues produced about 7.4 per cent of the total gross income of the firm. However, the memorandum shows that the firm also derives income from other transactions, in which it acquires large blocks of old securities and sells them to its clientele. The memorandum points out that in these transactions the firm does not enlist the services of salesmen or of associated firms, but merely notifies its clientele by telephone or circular letter that such securities are available at a stipulated price.

"Section 32 was designed to prevent interlocking relationships involving the conflict of interests which would result from the service of an individual as a director of a bank, which was a potential purchaser of securities, and as a member of a firm which was seeking to promote the sale of such securities. The word 'distribution' in section 32 clearly includes the distribution of new issues through selling group and syndicate participations. The wording and legislative history of the section show that it also
"includes so-called 'secondary' distribution where the firm acquires a large quantity of an issue which has been outstanding for some time and distributes it to investors, because such 'secondary distribution' involves a similar incentive to promote the sale of the securities.

"In the present case, transactions of the latter kind produced about 12.7 per cent of the total gross income of the firm, which, added to the amount derived from the distribution of new issues, constitutes such a substantial portion of the total income of the firm that the Board believes it should be regarded as 'primarily' engaged in the kind of business described in section 32. Therefore, on the basis of the information which has been submitted, it appears that the proposed service of Mr. Stillman as a director of Fulton Trust Company of New York would be prohibited by the provisions of section 32 of the Banking Act of 1933.

"It will be appreciated if you will advise Mr. Stillman accordingly, unless you feel that a further investigation should be made of the facts regarding the sales of old issues by the firm or that there is some other reason why the matter should receive further consideration by the Board."

Approved unanimously.

There was presented a recommendation, which had been approved by the Personnel Committee, that the Board authorize the purchase and installation of four pairs of casement curtains in the staff dining room, as listed in purchase order No. 2414, at a total cost of $60.11.

Approved unanimously.

Thereupon the meeting adjourned.

[Signature]
Secretary.