

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 4, 1938, at 10:45 a. m.

PRESENT: Mr. Eccles, Chairman (morning session only)
 Mr. Ransom, Vice Chairman
 Mr. Szymczak
 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. Smead, Chief of the Division of Bank
 Operations

Reference was made to the report of Mr. Ransom at the meeting of the Board on August 27, 1937, of a telephone conversation which he had had with Mr. Harrison, President of the Federal Reserve Bank of New York, with respect to the latter's conversation by telephone with Mr. Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs of the State Department, concerning the policy of the Guaranty Trust Company and The Chase National Bank, both of New York, New York, regarding loans to the Yokohama Specie Bank, and to the question which had been discussed informally at various times since that date whether the Federal Reserve Bank of New York should be requested to take up with the Board any matters which might call for a reference to the State Department before the matters are actually presented to the Department. During the course of a discussion it was suggested that

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all Federal reserve banks should be requested to take up with the Board prior to reference to any department or agency of the Government all matters which require such reference, except matters in connection with which the Federal reserve banks act as agent or custodian for the department or agency involved and the question under consideration does not involve a matter of concern to the Board or the Federal Reserve System.

The Secretary was requested to prepare for consideration by the Board a draft of letter to the Federal reserve banks along the lines of the above suggestion.

Further consideration was given to the recommendation contained in a memorandum submitted by Mr. Smead under date of September 24, 1937, that the text of the weekly statement of condition of Federal reserve banks, which now shows total excess reserves of member banks, be amplified to show also the approximate amounts of excess reserves of central reserve city banks in New York and Chicago, respectively. The recommendation had been considered at the meetings of the Board on September 30 and October 5, 1937, and had been discussed informally since the latter date. At this meeting the suggestion was made that the separate figures be not published for the reasons that, (1) the total excess reserves of a particular district or group of member banks do not reflect the true reserve position of the member banks involved inasmuch as such figures do not include the balances of such banks with corres-

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pondents, (2) agriculture, industry and commerce generally are concerned with the aggregate reserves for the country and not with the reserves of a particular city alone, and (3) the publication of the figures at this time would serve no useful purpose and their publication at some later date because of changed conditions might be found to be undesirable. Mr. Smead stated that the figures of excess reserves of central reserve city banks in New York and Chicago were being given out by the New York and Chicago Federal Reserve Banks, respectively, and that while he did not believe the publication of such figures was a matter of major importance he felt that if the information was to be given out it should be published by the Board rather than the Federal reserve banks. He also pointed out that sufficient information is contained in the weekly statement of condition of reporting member banks to enable the public to compute the excess reserve position of central reserve city banks in New York and Chicago with a reasonable degree of accuracy.

At the conclusion of a discussion, Mr. Smead's recommendation was laid on the table with the understanding that he would continue his study of the matter in the light of the points referred to above.

Attention was called to a draft of letter to the Secretary of the Treasury referring to Assistant Secretary Taylor's letter of July 6, 1937, to the Federal reserve banks in which he advised that after January 1, 1938, the banks would be expected to absorb the slight expense involved in the redemption of adjusted service bonds, and stating

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that it now appears that the expense to which the Federal reserve banks would be put during the year 1938 in connection with such redemptions would be substantial, that the Board concurred in the view of the Reimbursable Expense Committee of the Presidents' Conference that the Federal reserve banks should not be asked to absorb such expense, and that it would be appreciated if, after the Secretary of the Treasury had an opportunity to have the matter reviewed, he would advise the Board of the views of the Treasury with respect thereto.

It was agreed that action on the letter should be deferred and that the matter should be discussed with Mr. Taylor by Messrs. Ransom and Smead, following which a recommendation would be submitted to the Board by Mr. Ransom as to the action to be taken.

Mr. Davis submitted the recommendation of the Personnel Committee that Mr. Oscar Johnston be appointed a Class C director of the Federal Reserve Bank of St. Louis for a term of three years beginning January 1, 1938.

By unanimous vote, Mr. Johnston was appointed a Class C director of the St. Louis bank as recommended by the Personnel Committee.

There ensued a further general discussion of the informal advices received from the Federal reserve banks with respect to actions proposed to be taken by the boards of directors of the banks at their January meetings covering changes in salaries of officers of the respective banks for the year 1938.

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At 1:30 p.m. the meeting recessed and reconvened at 3:15 p.m. with the same attendance as at the morning session except that Messrs. Eccles and Thurston were not present and Mr. Paulger, Chief of the Division of Examinations, was in attendance.

The discussion of the proposed changes in salaries of officers at the Federal reserve banks for the year 1938 was continued but without formal action.

At this point Messrs. Wyatt, Smead and Paulger 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 December 30, 1937, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 31, 1937, were approved and the actions recorded therein were ratified unanimously.

Memorandum dated January 3, 1938, from Mr. Morrill recommending, for the reason stated in the memorandum, that the appointment of Mr. Harry E. Toston, who was employed by the Board as an inspector on its new building and whose resignation was accepted by the Board on December 3, 1937, effective at the expiration of his accumulated leave on February 10, 1938, be extended on a temporary basis for the duration

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of the work in connection with the Board's parking lot to perform such duties as Mr. Spurney, Building Manager, shall direct, with no change in his present salary at the rate of \$2,100 per annum, effective as of the date upon which he enters upon the performance of his duties, and with the understanding that any remaining accumulated leave which Mr. Toston had when he returned to active duty would be granted to him after the completion of the work on the parking lot.

Approved unanimously.

Memorandum dated December 31, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a voucher in the amount of \$28,518.77, signed by Deputy Comptroller of the Currency Lyons, covering the proposed budget for the Federal Reserve Issue and Redemption Division of the Comptroller's Office for the first six months of 1938. The memorandum stated that the proposed budget was \$3,080 in excess of the budget for the last half of 1937, the increase being due primarily to salary increases totaling \$5,610 for the year or \$2,805 for the six months period; that in accordance with the procedure adopted in November, 1936, for reimbursing the Comptroller's Office for expenses of the Division, the responsibility for determining salaries of employees in the Division presumably rests with the Comptroller of the Currency, and that, unless there was objection on the part of the Board, the Federal reserve banks would be requested to deposit with the Federal Reserve Bank of Richmond, in accordance with the

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established procedure, the amount called for by the voucher.

The procedure outlined in the memorandum was approved unanimously.

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

"There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding 'Extensions of Time by Business Conduct Committees in Connection with Cash Transactions under Revised Regulation T'. If you deem it advisable you may send copies of this ruling to any national securities exchanges in your district and advise them of the fact that it will appear in the Bulletin."

Approved unanimously.

The ruling attached to the letter read as follows:

"Section 4(c) of Regulation T, as revised effective January 1, 1938, provides for a special cash account, and the section contemplates that the usual purchase or sale in such an account will be settled in full by the customer not later than 7 days after the transaction. In connection with this time limit, however, certain exceptions are provided and the business conduct committees of national securities exchanges are authorized to extend the time in certain circumstances.

"The Board recently considered a case in which a member of a national securities exchange who is domiciled in this country maintains for a customer who is domiciled abroad a special cash account that conforms to section 4(c) of the revised regulation. Securities sold 'regular way' in this account are shipped by the customer to the member promptly after the sale. Due to the time required in transit, the average interval between the sale and the receipt of the securities by the member is greater than 7 days, but less than 15 days. Such sales and shipments are of frequent occurrence.

"The inquiry indicated that the business conduct committee of the member's exchange was satisfied that the facts

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"are such that under section 4(c) it would be justified in extending the time to 15 days separately for each such transaction if the member made a separate application in connection with each transaction. The member and the committee would, however, like to avoid the necessity for repeated separate applications and extensions on the occasion of each such transaction between the given member and customer.

"The question presented was whether in the circumstances described the committee may, on the basis of a single application by the member, extend the period to 15 days for all transactions of the type described that the member may effect in the future for the customer named in the application. The Board expressed the opinion that section 4(c) permits such an extension of time, and that repeated individual applications and extensions in connection with such transactions between the member and the customer may thus be avoided."

Letter to the Securities and Exchange Commission, reading as follows:

"Reference is made to Mr. Chester T. Lane's letter of December 3, 1937 regarding the correspondence of your Commission and this Board with Mr. Carl M. Dubinsky, St. Louis, Missouri, with respect to the margin regulations under the Securities Exchange Act of 1934.

"We requested the Federal Reserve Bank of St. Louis to advise the Board of any information which the Reserve bank might have in this connection, and we are forwarding herewith for your information a copy of the reply received from the bank in response to this request."

Approved unanimously.

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

"Reference is made to Mr. Dillistin's letter of December 18, 1937, and inclosures, relative to the applicability of the provisions of section 8 of the Clayton Act to the services of Mr. E. B. Hourigan, Union City, New Jersey, as a director and officer of Liberty National Bank in Guttenberg, Guttenberg, as a director of Commonwealth Trust Company, Union City, and as a director of Seaboard Trust Company, Hoboken, all of New Jersey.

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"The only questions presented for the Board's consideration in connection with this case are whether (1) Guttenberg and Hoboken and (2) Guttenberg and Union City, respectively, are 'adjacent' to each other within the meaning of the exception set forth in section 2(d)(5) of the Board's Regulation L, since Mr. Dillistin states that none of the other exceptions contained in section 8 of the Clayton Act or the regulation is applicable, and since neither Commonwealth Trust Company nor Seaboard Trust Company is a member of the Federal Reserve System.

"The Board has given careful consideration to the information submitted with Mr. Dillistin's letter bearing upon these questions and sees no reason to differ from the conclusions reached by your office and concurred in by counsel to your bank that (1) Guttenberg and Hoboken, New Jersey, should not be regarded as 'adjacent' and (2) Guttenberg and Union City, New Jersey, should be considered to be 'adjacent' within the purview of the exception set forth in section 2(d)(5) of the Board's Regulation L. Accordingly, Mr. Hourigan may serve as a director and/or officer of Seaboard Trust Company, Hoboken, and either Liberty National Bank in Guttenberg, Guttenberg, or Commonwealth Trust Company, Union City, but he may not legally serve at the same time as a director or officer of Liberty National Bank in Guttenberg, Guttenberg, New Jersey, and Commonwealth Trust Company, Union City, New Jersey.

"The Board appreciates the thorough consideration which your office has given to this case and assumes that you will definitely advise Mr. Hourigan and the banks concerned of its views in the matter before the annual election of directors of the national bank in January 1938."

Approved unanimously.

Thereupon the meeting adjourned.

Walter Morrie
Secretary.

Approved:

W. C. ...
Chairman.