A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 4, 1939, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Williams, Assistant Counsel

Attention was directed to a letter dated January 27, 1939, from Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis, stating that, at the meeting of the board of directors of the bank on that date, Colonel Frank D. Rash was elected Managing Director of the Louisville Branch for the remainder of the year 1938, and that, subject to approval by the Board of Governors, his salary was fixed at the rate of $10,000 per annum. The letter also stated that the oath of office and biographical sketch of Mr. Rash would be forwarded in due course and that he expected to assume office about February 21.

The salary proposed for Mr. Rash in the new position was con-
sidered in the light of the salaries paid managing directors of other branches of Federal reserve banks and the fact that the salary of John T. Moore, who retired as managing director of the Louisville Branch on December 31, 1937, was at the rate of $8,000 per annum. Reference was also made to information that had been received from other sources that Mr. Rash will become sixty years of age shortly and that, therefore, he would be subject to retirement after a period of service of only approximately five years. All of the members were of the opinion that the salary proposed for Mr. Rash was higher than should be paid under the circumstances.

Upon motion by Mr. McKee, which carried by unanimous vote, the Secretary was requested to prepare, for consideration by the Board, a draft of letter to Mr. Nardin advising him of the Board's disapproval of a salary of $10,000 per annum, but that the Board would approve a salary at a rate of not to exceed $8,000 per annum for Mr. Rash as Managing Director of the Louisville Branch, if fixed by the board of directors of the Federal Reserve Bank of St. Louis.

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Kimball, Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Messrs. Hays and Young, Secretaries of the Federal Reserve Banks of Cleveland and Chicago, respectively, and Messrs. Thomas and Stewart, Chairmen of the Federal Reserve Banks of Kansas.
City and San Francisco, respectively, stating that the Board approves
the establishment without change by the Federal Reserve Bank of San
Francisco on February 1, by the Federal Reserve Bank of Boston on
February 2, and by the Federal Reserve Banks of New York, Philadelphia,
Cleveland, Chicago, Kansas City and San Francisco on February 3, 1938,
of the rates of discount and purchase in their existing schedules.

Approved unanimously.

At this point Mr. Williams left the meeting.

Consideration was then given to a letter dated January 28, 1938, from Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta,
recommending that, in order that the proper organization might be set
up to handle research and statistical work at the Federal Reserve Bank
of Atlanta, the Board approve the transfer of Mr. Malcolm Bryan, who
is serving on a temporary basis as a senior economist in the Board's
Division of Research and Statistics, to the Federal Reserve Bank of
Atlanta where he would be appointed vice president in charge of research
and statistics and business information, with salary at such a rate,
up to $7,500 per annum, as would enable him to give his entire atten-
tion to the bank's activities in this field. Reference was also made
to a memorandum dated February 2, 1938, from Mr. Ransom recommending
approval of the proposal.

Following a discussion, it was under-
stood that Mr. Ransom would advise Mr.
Neely informally that if Mr. Bryan were
appointed vice president of the bank in charge of research and statistics and business information with salary at a rate not to exceed $7,500 per annum, the Board would approve the salary fixed for him in the new position, with the understanding that the effective date of the appointment would be determined in consultation with the Board of Governors in the light of the desire of the Board that Mr. Bryan continue the special studies which he is making for the Board in the field of the monetary aspects of tax legislation until suitable arrangements can be made to have the work taken over by someone else.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead and Parry 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 February 3, 1938, were approved unanimously.

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

"Receipt is acknowledged of your letter of January 23, 1938, regarding the eligibility of Mr. G. R. Corlis to serve as a Class A director of your bank while serving as a Commissioner and Secretary of the Clear Creek Drainage and Levee District, Union and Alexander Counties, Illinois.

"It is understood that the Clear Creek Drainage and Levee District is organized under the provisions of chapter 42 of Smith-Hurd's Illinois Statutes Annotated (Perm. Ed., 1935); that the commissioners of the district are appointed by the County Court upon the petition of adult land owners representing a majority of the acreage embraced in the
"district or, if such a petition is not filed within the time prescribed by the statute, they are appointed by the County Court without petition; that the commissioners select from among their number a chairman and secretary; that for their services the commissioners receive the sum of $5 per day with necessary traveling expenses for each day they are actually engaged in the business of their office; and that the primary functions of the commissioners are to supervise proposed drainage projects, determine assessments upon land owners, and perform other duties in connection with the administration of the drainage district.

"It is noted that you and your Counsel are of the opinion that the service of Mr. Corlis would not be in violation of the Board's resolution of December 23, 1915, relating to the holding of political office by directors or officers of Federal Reserve banks.

"In the circumstances, the Board would offer no objection to Mr. Corlis' serving as a Class A director of your bank, if he should be elected, while serving as a Commissioner and Secretary of the Clear Creek Drainage and Levee District."

Approved unanimously.

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

"This refers to your letter of January 25, 1938, including a letter from Mr. L. P. Dendel, Secretary-Treasurer of the State Association of Mutual Insurance Companies of Michigan, Lansing, Michigan, requesting that the Board's ruling that deposits of mutual fire insurance companies may not be classified by member banks as savings deposits under the definition in section 1(e) of Regulation Q be modified so as to permit deposits of farmers mutual fire insurance companies to be classified as savings deposits.

"As you know, the Banking Act of 1935 conferred upon the Board of Governors authority to define the term 'savings deposits' and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the law and prevent evasions thereof. This authority was granted in order to enable the Board to correct certain
well-recognized abuses which had grown up in connection with savings deposits.

Member banks are forbidden by law to pay interest on demand deposits or to pay time deposits before maturity, except in certain exceptional circumstances. However, member banks are permitted to pay savings deposits on demand, provided they retain the right to require thirty days' notice of withdrawal, and are also permitted to pay interest on such deposits. In addition, member banks are permitted to carry with the Federal Reserve banks a reserve of only 6 per cent against savings deposits, although they are required to carry reserves of 14, 20, or 26 per cent, depending upon the location of the bank, against all other deposits which are payable on demand.

It will be seen from the above that savings deposits are an exceptionally favored class of deposits having special privileges not granted to any other class of deposits. These privileges are granted to such deposits because of the desire to encourage thrift. However, the granting of this favored status to savings deposits has led to certain abuses by member banks, chief of which were the classification of ordinary demand deposits as savings deposits in order to pay interest on such funds and to carry the lower reserves against them, and the classification of idle funds of certain organizations as savings deposits even though such funds were not accumulated for the purposes sought to be encouraged by the favored status given to savings deposits.

It is believed that 'savings deposits' in the true meaning of the term are deposits which consist of the accumulation of savings of individuals, usually of limited financial means, in order to provide for sickness, accident, old age, or other exigencies, and, although there are certain non-profit organizations which may properly be included in the class of those who are afforded the privilege of maintaining savings deposits, it is believed that funds of farmers mutual fire insurance companies do not fall within this category. Accordingly, in section 1(e) of Regulation Q the Board has provided that a savings deposit must consist of the funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit.

Soon after the issuance of the current edition of Regulation Q, effective January 1, 1936, the Board of Governors ruled that deposits of mutual fire insurance companies
"could not be classified as savings deposits because, in the view of the Board, such companies are not operated for religious, philanthropic, charitable, educational, fraternal, or other similar purposes. The same ruling has been made with respect to mutual life insurance companies, building and loan associations, credit unions, and co-operative marketing associations. All of these rulings were recently given careful reconsideration by the Board of Governors and the position previously taken with respect to the organizations mentioned above was reaffirmed in the ruling enclosed with the letter dated October 30, 1937 (S-41). Accordingly, it is our view that deposits of farmers mutual fire insurance companies may not be classified by member banks as savings deposits and that, for the reasons stated above, no modification of this ruling should be made.

"It will be appreciated if you will advise Mr. Dendel of the views expressed herein."

Approved unanimously.

Letter to Mr. W. S. Davidson, President, Gallatin Trust and Savings Bank, Bozeman, Montana, reading as follows:

"This refers to your letter of January 28, 1938, addressed to Mr. Davis, member of the Board of Governors, in which you ask that the Board give consideration to the definition of the term 'executive officer', contained in Regulation O, as applied to inactive officers of a member bank. You refer particularly to a situation arising in your bank in connection with a loan to an inactive vice president.

"At the time Regulation O was promulgated the Board was aware of the fact that some banks had honorary or inactive officers and careful consideration was given to the question as to whether they should be included within the definition of the term 'executive officer'. On several occasions since then the Board has reconsidered this particular matter. It has been the Board's position, however, that inactive officers should be included within the definition of the term 'executive officer' for the following reasons:

(1) It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the exercise of
"undue influence by executive officers of member banks in obtaining credit from the banks they serve and it is the Board's view that the exercise of such undue influence may be present in the case of inactive or honorary officers;

(2) Congress did not make a distinction in section 22(g) between active and inactive officers and the legislative history of the section indicates that certain officers of a member bank should appropriately be regarded as executive officers for the purposes of the law in question even though they may be inactive;

(3) From the standpoint of the public, persons having the usual titles of executive officers in member banks are considered as executive officers whether or not they are active, and the Board does not feel that it should give encouragement to the employment in an inactive capacity of persons who are given the titles of executive officers and held out to the public as such.

"While, therefore, the vice president of your bank must be considered, under the circumstances stated in your letter, as an executive officer within the meaning of section 22(g) of the Federal Reserve Act and the Board's Regulation O, it is hoped that you will understand the Board's position in attempting to carry out the purposes of the law and to deal fairly with all member banks in accordance with the statute."

Approved unanimously.

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

"This refers to your letter of March 8, 1937, relating to an inquiry from Union Bond & Mortgage Company, Port Angeles, Washington, with respect to whether cash, notes receivable, and accounts receivable may be considered readily marketable assets for the purposes of subsections (b) and (c) of section 5144 of the Revised Statutes of the United States. As you have been advised, a reply to your letter has been deferred awaiting the development of experience through action by the Board on requests of the
"Commissioner of Internal Revenue for certifications in connection with claims of holding company affiliates for credits for income tax purposes. However, while no such requests have yet been received, it is felt that a reply should not be further delayed.

"The Board feels that the question whether certain assets are readily marketable assets within the meaning of subsections (b) and (c) of section 5144 is a question of fact which should be determined primarily by the holding company affiliate itself, bearing in mind that the law apparently contemplates that the assets shall be of such a nature that their fair market value can be easily ascertained with reasonable accuracy and can be readily realized in the market at any time in order to pay assessments on bank stocks or to assist subsidiary banks through voluntary contributions. Assets of any kind, other than bank stocks, will satisfy the requirements of the law if they are in fact readily marketable. Quite clearly they need not consist only of stocks, bonds, and similar assets commonly known as 'securities'. On the other hand, in view of the nature of the present inquiry, it should be pointed out that 'readily marketable assets' cannot be properly construed to include all assets which may be classified as 'current assets'. Thus, while notes, at least, may be readily marketable in some instances, notes and accounts receivable cannot be considered readily marketable assets merely because it is contemplated that they will be collected within a relatively short time. However, in the light of the purposes of the requirements under consideration, it is believed that cash, in the sense of United States currency and demand bank deposits, should be deemed to be a readily marketable asset within the meaning of such requirements.

"It is trusted that the foregoing comments may be of assistance to Union Bond & Mortgage Company in determining what action it must take in order to comply with the statutory provisions in question and it will be appreciated if you will advise that organization concerning the Board's views."

Approved unanimously.

Letter to Honorable Stephen B. Gibbons, Acting Secretary of the Treasury, reading as follows:
Reference is made to your letter of September 29, 1937, in regard to the results of the audit by the Treasury Department of the reports of the Federal Reserve banks for the calendar years 1935 and 1936 on their operations under section 13b of the Federal Reserve Act as amended. It is noted that the Treasury Department's computations differ from those of the Federal Reserve banks in that the Treasury's figures are strictly on the basis of amounts advanced by the Secretary of the Treasury and net earnings and net losses for prior years are not considered as affecting the amount available for making industrial advances.

In the Board's letter of May 6, 1935, replying to the Treasury Department's letter of April 27, 1935, it was stated that the Board was in accord with the statement in the Treasury Department's letter that charges to section 13b surplus should not be construed as in any way reducing the basic figures upon which payments by the Reserve banks to the Treasury are to be computed, but that such charges do reduce the amount of section 13b surplus from which earnings may be derived for the purpose of making payments to the Secretary of the Treasury under subsection (e) of section 13b. As therein expressed, it is the position of the Board that any losses sustained on industrial advances made by the Federal Reserve banks represent a loss of a portion of the funds used by the Federal Reserve banks in making industrial advances and, to the extent that such losses are not offset by earnings on industrial advances and commitments, result in a reduction in the amount of funds available for operations under section 13b. The instructions which have been issued to the Federal Reserve banks by the Board on this subject, as you know, are in accordance with this view.

Since the receipt of your letter of September 29, 1937, conferences have been held on this subject between representatives of the Treasury Department and the Board, and as a result of these discussions it is now understood that the Treasury Department will not object at this time to the Federal Reserve banks' continuing to make their computations in accordance with the instructions which have been issued to them by the Board, crediting to section 13b surplus net earnings derived from the use of funds received from the Secretary of the Treasury in excess of payments by the banks to the United States and charging to such surplus a proportionate share of losses and expenses in excess of earnings, with the understanding, however, that the continuation by the Federal Reserve banks of their computations
"In accordance with these instructions is without prejudice to any position which the Treasury may take on this subject and is not to be construed as an abandonment by the Treasury Department of the contentions which it has heretofore urged on the subject.

"Accordingly, the method of computation which the Federal Reserve banks are now following in accordance with the instructions of the Board will be continued subject to the understanding stated."

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Presidents' Conference, prepared in accordance with the action taken at the meeting of the Board on February 1, 1938, and reading as follows:

"As you know, following the receipt of suggestions from two Federal reserve banks that meetings of the Board of Governors with the directors of Federal reserve banks be held from time to time, the Board on December 4, 1937, addressed a letter to all Federal reserve banks requesting the suggestions of the directors of the respective banks with respect to certain questions presented by the proposal that such meetings be held.

"The directors of ten of the banks were in agreement with the general idea that the meetings were desirable, but there was considerable diversity of opinion as to the kind of meetings that should be held. Of the remaining two banks, one expressed doubt as to the practicability of a meeting of all directors and officers and as to the value of group meetings. The other bank was of the opinion that in the absence of some situation of a critical or important nature the expense that would be incurred and the time that would be consumed in holding such a meeting, in the case of that bank, would not be justified, and that there were no problems or topics which the bank could suggest for such a meeting. Of the ten banks, six expressed the feeling that meetings of directors of all Federal reserve banks would be undesirable principally because they would be too large to secure practical results. Another, while sympathizing with the evident objectives of such meetings, felt that it was inadvisable, in the present disturbed state of business,
to hold a joint meeting of the Board of Governors and the directors of either all Federal reserve banks or groups of such banks. Three banks favored a meeting of all directors as being more beneficial or as affording better representation and a wider field of discussion. Of the banks that felt that a meeting with all directors would be undesirable, five favored group meetings (two to four banks with the Board) as being productive of the best results, and it was suggested in one or two cases that such meetings would be less burdensome on the Board than separate meetings in each district. Two of these banks felt that any group meetings should be of banks with somewhat similar problems. Two other banks were of the opinion that meetings of the Board with the directors of the individual banks were desirable.

Only seven of the banks made any comment with respect to the question whether the meetings should be confined to directors only or include (a) officers of the Federal reserve banks, and, (b) directors of branches. Two banks would limit attendance by officers to the president, and one other bank would exclude officers altogether. Two banks would invite 'senior officers'; one bank felt that 'one or more' senior officers should be present; and another that, in addition to the presidents, such other officers should attend as might be designated by the board of directors. Four banks would exclude branch directors from the meetings, three of these for the reason that the meetings would be too large for practical results. One of the four would include branch directors if meetings were held with individual banks. A fifth bank suggested that representation of a branch by one director might be desirable. Another felt that it is important that branch directors be included as a means of retaining and stimulating their interest. Still another bank felt that the question whether branch directors should be included would depend primarily on the program to be discussed.

The only definite suggestion as to a place for a meeting of the Board with all directors was that it be held in Washington. Two banks suggested Washington as a place for group meetings. Another Federal reserve bank suggested that a group meeting of directors of banks with similar problems be held in the largest Federal reserve bank city of the group. Another favored a meeting with directors of an individual bank within the district attended by a committee
"Suggestions with respect to a program for the meetings were: (1) That, in order that there might be free discussion between the Board and the directors, no formal program be worked out, it being felt that a general discussion would produce topics which could be carried on a program for subsequent meetings. Two other banks expressed a similar thought. (2) The preparation of a program be undertaken by the Board from topics submitted, at the request of the Board, by the individual directors, with such additions or deletions as the Board might desire to make. (3) A program might be formulated as a result of an exchange of views between the Board and the directors of a bank or banks. (4) The program might best be left entirely to the discretion of the Board. (5) Unless a program (for a meeting of directors of all banks) were carefully selected and a discussion of these topics made by selected individuals, the meeting might develop into a free-for-all and nothing be accomplished. Five banks offered no suggestions regarding a program.

"The Board would like to adopt a procedure for the suggested meetings which would meet fully the wishes of all the banks, but it is desirable that some method be adopted which will reconcile the divergent views as far as possible. Accordingly, the Board has decided to follow the suggestion made by one of the Federal reserve banks that the matter be referred to the Conference of Presidents for further consideration for the purpose of arriving at a common point of view for presentation to the Board. It will be appreciated, therefore, if you will place the matter before the Conference for discussion and the formulation of a recommendation at its next meeting."

Approved unanimously.

Telegram to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Retel February 3, no objection will be made to payment by member bank of premium on surety bond required by 11 U S C A section 101."

Approved unanimously.
Thereupon the meeting adjourned.

[Signature]
Approved: [Signature]

Chairman.