

A meeting of the Board of Governors of the Federal Reserve System with the Presidents of Federal Reserve Banks was held in Washington on Tuesday, March 1, 1938, at 4:30 p.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. Paulger, Chief of the Division of Examinations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations

Messrs. Young, Harrison, Sinclair, Leach, Newton, Schaller, Martin, Peyton, McKinney and Day, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas and San Francisco, respectively.

Mr. Zurlinden, First Vice President of the Federal Reserve Bank of Cleveland

Mr. Kimball, Acting Secretary of the Conference of Presidents

In connection with the topic submitted by the Board just prior to the meeting of the Conference of Presidents with respect to nonmember clearing accounts, President Young stated that the Conference had

3/1/38

-2-

reviewed the situation regarding such accounts at the respective Federal reserve banks and, while the Presidents felt that they could not reach definite conclusions without a further study of the problem, they were of the opinion that (1) it would be difficult at this time to adopt a uniform policy at all Federal reserve banks with respect to the maintenance of such accounts, (2) that it would be unwise to advise all nonmember banks of the willingness of the Federal reserve banks to open such accounts and (3) that the use of such accounts should be confined to the purposes specifically stated in paragraph 1 of Section 13 of the Federal Reserve Act.

Chairman Eccles stated that the Board had suggested the topic for consideration by the Presidents because it felt that some Federal reserve banks should not be in a position of encouraging or permitting such accounts while other banks discouraged or did not permit their maintenance, and also because of the fact that changes in the total amount of deposits of nonmember clearing accounts with Federal reserve banks have a direct effect upon the excess reserve position of member banks. Chairman Eccles suggested that, in order that the matter might be followed to a conclusion, the Presidents appoint representatives to serve with representatives of the Board on a joint committee to formulate a report for submission before or at the time of the next meeting of the Conference of Presidents.

This suggestion was agreed to and Mr. Harrison stated that the Conference

3/1/38

-3-

of Presidents would appoint three representatives as members of the joint committee.

President Harrison stated that with respect to the question of possible changes in reserve city designations, also suggested by the Board just prior to the meeting of the Conference of Presidents, the Presidents felt that, without full information as to each city, they were not in a position to recommend that the designation of any of the twenty-four reserve cities in which there is no Federal reserve bank, branch, or agency should be terminated, and that the Conference felt that, unless the Board had already done so, it would be advisable to study the situation with respect to each city. He added that the Conference would be glad to cooperate in any such study and to submit recommendations if so desired, and that if after the study was completed it should be found desirable to terminate the designation of any of the twenty-four cities, the Conference would see no objection to advising the member banks in each such city, with the possible exception of St. Paul which by reason of its location in relation to Minneapolis was essentially a Federal reserve bank city, that the Board would consider their application for termination of the designation of the city as a reserve city.

There were distributed among the members of the Board and the Conference of Presidents a copy of a tabulation prepared in the Board's Division of Bank Operations showing the population, inter-bank deposits,

3/1/38

-4-

required reserves, and excess reserves of banks in central reserve cities, Federal reserve bank and branch cities, reserve cities other than Federal reserve bank and branch cities, and non-reserve cities with a population of 100,000 or more.

After a discussion of the matter on the basis of the information contained in the memorandum above referred to, Chairman Eccles stated that the Board would study the matter further and determine upon the course of action which should be pursued.

Reference was then made to the request of the Board for the opinion of the Conference as to the desirability of modifying the time schedules of the Federal reserve banks so that member banks would be given immediate credit for items payable in their own Federal reserve banks or branch cities and one or two day deferred credits for all other items, and President Harrison stated that the Conference felt that the problem required a study by operating officers of the Federal reserve banks from the standpoint of the effects of the proposed modification on the transit operations of the Federal reserve banks, on the cost of such operations, and on the reserves of member banks as a result of the increased amount of float which would be carried by the Federal reserve banks. President Harrison also stated that the Conference had discussed in a preliminary way what changes might be made to improve the check collection system at the Federal reserve banks and that it was agreed that there were so many ramifications to the problem that it would be a mistake to make any substantial change

3/1/38

-5-

without a careful study of the entire matter.

It was stated that the Board had suggested consideration of the topic as one which might afford an opportunity to the Federal reserve banks to render more effective service to their member banks and one which recognized the evils of the growth of correspondent bank relationships and the pyramiding of reserves through inter-bank balances which suggested the question whether all such deposits should not be required to be held at Federal reserve banks.

In accordance with President Harrison's statement, it was agreed that the Conference of Presidents would appoint representatives to serve with representatives of the Board on a joint committee to study the problem with a view to formulating a report for submission to the Board and the Conference of Presidents as promptly as possible and for consideration by the Board and the Presidents at the time of the next Conference of Presidents.

President Harrison referred to the topic contained on the Conference program relating to the desirability of permitting deduction of cash in vault, either from required reserves or from deposits, in determining the reserve requirements of country member banks, and stated that, after a long discussion, the Conference had recommended that the Board consider favorably presenting to Congress at some appropriate time an amendment to the law which would permit banks outside of Federal reserve bank and branch cities to count as a part of their legal reserves cash in vault in an amount not to exceed one-half of the

3/1/38

-6-

required reserve, the exact amount to be determined more accurately after a study of the amount of cash that might properly be carried by such banks in their vaults.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

[Signature]
Chairman.