A meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council was held in Washington on Tuesday, May 17, 1938, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

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. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations

Messrs. Thomas M. Steele, Winthrop W. Aldrich, Howard A. Loeb, Lewis B. Williams, Robert M. Hanes, Edward E. Brown, Walter W. Smith, John Crosby, C. Q. Chandler, R. E. Harding and Paul S. Dick, Members of the Federal Advisory Council representing the First, Second, Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth, Eleventh and Twelfth Federal Reserve Districts, respectively.

Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council

At the request of Mr. Smith, Mr. Lichtenstein read the following statement prepared by the Federal Advisory Council in response to topics submitted by the Board in its letter of February 3, 1938, for consideration by the Council:

"Under date of February 3, 1938, the Board of Governors of the Federal Reserve System requested the Federal Advisory Council to give consideration to the following topics:

"1. (a) WHAT IS THE FUNCTION OF THE FEDERAL ADVISORY COUNCIL AS A PART OF THE FEDERAL RESERVE SYSTEM.

(b) HOW ESSENTIAL AND IMPORTANT IS THIS FUNCTION AND HOW MIGHT IT BE IMPROVED.

"2. WHAT TYPES OF TOPICS SHOULD BE DISCUSSED BY THE COUNCIL WITH THE BOARD FROM TIME TO TIME.

. . . . . .

"The Federal Advisory Council welcomes the opportunity to present to the Board of Governors of the Federal Reserve System its views upon these subjects.

"1. (a) WHAT IS THE FUNCTION OF THE FEDERAL ADVISORY COUNCIL AS A PART OF THE FEDERAL RESERVE SYSTEM.

"Section 12 of the Federal Reserve Act, which after providing for the formation of the Council, states that it is given the power by itself or through its officers:

"(1) to confer directly with the Federal Reserve Board on general business conditions

"(2) to make oral or written representations concerning matters within the jurisdiction of said Board

"(3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, and the general operations by said banks and the general affairs of the reserve banking system.

Although the Federal Reserve Act of 1913 has been amended frequently, no change has been made in Section 12. The functions of the Council, therefore, are those originally stated in the Act.

"1. (b) HOW ESSENTIAL AND IMPORTANT IS THIS FUNCTION AND HOW MIGHT IT BE IMPROVED.

"The importance of the Council in the Federal Reserve System was actively discussed in Congress at the time the Federal Reserve Act was being considered. It was most ably stated in the following report on the bill filed by Senator Owen in November 1913, on behalf of himself and six other Senators:

> 'It is believed that the Federal Reserve Board itself, consisting entirely of officers of the government might be made more efficient if it had the advice freely available of the Federal advisory council. Moreover, the operations of the Federal reserve board would in this way be subject to greater publicity and enable the banks of the country to have a greater measure of confidence in all the operations of the Federal reserve board. It was further believed that the banks of the country which are invited or required to contribute a very large sum to the Federal reserve banks, would be more content by having an easy and convenient means provided by law of frequent conferences with the Federal reserve board and the opportunity to advise the board with reference to the financial, commercial and industrial needs of the country.' (Volume I, Senate Reports, 63rd Congress, 1st session 1913, Report 133, Part I and Part 2).

"The Council believes that Senator Owen's report is an excellent summary of the general understanding in Congress as to the functions of the Council at the time of its creation and is admirably suggestive of the general purposes which the Board and Council should seek to serve in their relations with each other.

"A review of the activities of the Council since its inception does not reveal a consistent program of interpretation of its functions. From time to time the Council has formulated resolutions for reference to the Board upon subjects within the scope of Section 12 of the Federal Reserve Act. On its own initiative or at the suggestion of the Board, it has presented its views on banking legislation to the Board, and has made suggestions and recommendations to the Board in relation thereto. Its members have appeared before committees of Congress considering legislation affecting the banking system. It has given "consideration to and has made reports to the Board on topics submitted by the Board. Despite these activities, with the exception of a short period in the early history of the Federal Reserve System, no definite program of cooperation between the Board and the Council responsive to the duties imposed upon the Council by Section 12 of the Act and the interpretation of the functions of the Council, as outlined by Senator Owen hereinbefore referred to, has been followed. This may be accounted for by reason of changing points of view due to changes in personnel in the Board as well as in the Council. It may also be due in large measure to the comparatively short life of the Federal Reserve System, which, together with the fact that its entire existence covers three convulsive periods in the affairs of the nation - war, reconstruction and depression - did not permit of the development of a traditional relationship between the Board and the Council. If that be the case, it may account for the absence of that close relationship and cooperation between the Board and the Council that was contemplated in the Act and in the discussions in Congress surrounding its enactment.

"The Council very definitely feels that a closer and more intimate relationship with the Board should be developed. It realizes that it is merely an advisory body, but it is of the opinion that composed as it is of a representative from each of the twelve Federal reserve banks, its intimate knowledge of business and banking throughout the nation could be of greater value to the Board in the solution of problems confronting it. The Council feels that it should be consulted much more freely than in the past and that ample time should be given to study problems submitted to it. While the Council holds four statutory meetings each year, its services and those of its Executive Committee have always been available to the Board whenever sought. It would appear obvious that if a program of close cooperation between the Board and the Council were developed, more frequent meetings of the Council would be required. The Council realizes the vast importance of the problems with which the Board is confronted, involving economic as well as social questions, and affecting not only national but also international affairs. More frequent meetings would enable the Council to have the benefit of the views of the Board and would enable the Council to aid more intelligently and sympathetically in the solution of the various problems, and in interpreting the actions of the Board to the member banks and the public.

"If constructive results are to be achieved, a closer working relationship between the Board and the Council must be brought about. The Council calls attention to the fact that throughout its history its members generally have been men of long banking and business experience and of standing in their respective districts. Many of them have been experienced in the study of social "and economic problems in their respective areas and have aided in the solution of such problems. They, therefore, have been and are now in a position to be of considerable aid to the Board. It may be argued that the Council's approach is along district or sectional lines. However, as the Council is composed of a member from each Federal Reserve District, the Board receives in effect a nation-wide expression. On the other hand, the members of the Council, if more active consultation were had, would receive the benefit of the information and of the opinions of the Board, which in turn might alter the attitude of the Council. The Council believes that as a result of a closer relationship with the Board it could be of considerable assistance in bringing about a better understanding of the actions of the Board upon the part of member banks of the Federal Reserve System and a more effective cooperation. There have been instances in the history of the Council to justify this conclusion.

"2. WHAT TYPES OF TOPICS SHOULD BE DISCUSSED BY THE COUNCIL WITH THE BOARD FROM TIME TO TIME.

"This question may be answered in a general way that the types of topics to be discussed by the Council with the Board are those mentioned in Section 12, together with those related thereto that arise out of amendments to the Federal Reserve Act. More specifically, but not necessarily all inclusive, and in so far as they have a relation to the Federal Reserve System, the following are suggested as matters that should be discussed:

1. Monetary policies and actions
2. Fiscal policies and actions
3. Banking legislation and kindred legislation which may have a bearing upon the financial, industrial, commercial and agricultural life of the country
4. Reserve policies and actions
5. Rediscount policies and actions
6. Open Market policies and actions
7. Regulations promulgated from time to time by the Board of Governors of the Federal Reserve System
8. Relationship of the Board with the Federal Reserve Banks
9. Operations of the Federal Reserve Banks
10. Member banks' relationship with the Board and with the Federal Reserve Banks

"11. Gold policy
12. Silver policy
13. Bank examinations
14. In addition, obviously, the Board will be confronted with problems arising out of the operations of other bureaus of government which affect the Federal Reserve System. In this field the Council feels that it could be helpful to the Board.

"While the Council has outlined in a broad way the types of topics that might be discussed with the Board, the Council desires to impress upon the Board that it has no way of ascertaining the questions that the Board may be considering from time to time and that the Council is therefore obliged to depend upon the Board for information as to what topics are under consideration. The Council should have sufficient time to make the necessary studies and replies. There have been instances in the past when the Council had no knowledge of important questions that were being considered by the Board until action was taken, resulting in controversies that in all likelihood could have been avoided.

"The Council in presenting this memorandum to the Board realizes that there may be some matters included therein that the Board will wish to discuss with the Council. In an effort to lay a foundation upon which a traditional relationship between the Board and the Council may be built that will inure to the benefit of the Federal Reserve System, the Council submits this reply, and will be glad to discuss it with the Board.

"The Council is attaching to this memorandum a copy of an address made in November 1935 by one of its present members, Mr. Thomas M. Steele, at a time when he believed that he was to be succeeded by a new appointee. The Council believes that this address presents views that may be of interest to the Board and that they may lead to a closer working relationship between the Board and the Council." (A copy of Mr. Steele's address has been placed in the Board's files.)

It was understood that if the Board desired to offer any comments with respect to the statement they would be sent to the members of the Federal Advisory Council and discussed at the next meeting with the Council.

Mr. Lichtenstein then read the following letter which had been addressed by him under date of May 17, 1938, to Chairman Eccles:

"At the joint meeting of the Board of Governors of the Federal Reserve System and the Federal Advisory Council held in December, 1937, the Board asked the Council to make a report on the following question: 'How can the Federal Reserve System increase the value or scope of its services to member banks in practicable or desirable ways?' The Federal Advisory Council requested its members to address the member banks in their respective districts and ask for criticisms or suggestions to enable it to furnish the Board of Governors of the Federal Reserve System with comprehensive material. Approximately a thousand member banks were addressed, and confidential replies were received from about six hundred. Somewhat more than half of these offered suggestions; the rest merely expressed general or particular satisfaction with the present operations of the System.

"The report herewith filed by the Council is a compilation made by a committee of the Council based on 333 replies which contained some criticisms or suggestions.

"The Federal Advisory Council concluded that it would be best for it not to express any opinions of its own members but simply to let the Board have the result of an inquiry which represents a fair cross-section of the expressed views of the membership of the System, both geographically and by size of banks.

"It is obvious that the members of the Council assume no responsibility for any of the suggestions made, and submit this report in the hope that it may be of service to the Board of Governors, its staff, and to the regional Federal reserve banks. If the Board desires the Council in any way to pursue this study further or to amplify it, the Council will be glad to comply with the request of the Board."

The report referred to in the above letter, a copy of which has been placed in the Board's files, summarized the comments received by members of the Council with respect to the collection services of the Federal reserve banks, competition of Federal reserve banks with member banks, credit and investment advice by Federal reserve banks, the easy money policy of the Federal Reserve System, educational and supervisory service of the System, examinations, greater autonomy for Federal reserve banks in their respective districts, political control of the Federal Reserve System, reserve requirements, simplification and standardization of reports and statements, and miscellaneous comments. The report also contained excerpts taken from letters received by the members of the Federal Advisory Council with respect to each of the subjects above referred to.

In submitting the report Mr. Smith stated that, because of the conflicting opinions of member banks in the respective Federal reserve districts, the members of the Council felt that, instead of expressing individual opinions as to how the Federal Reserve System could increase the value and scope of its services to member banks, it would be more satisfactory to give the Board of Governors a cross-section of expressions received from the banks in the respective districts. It was also stated that the requests sent by the members of the Federal Advisory Council to the member banks had stated that the replies would be regarded as confidential and Mr. Smith pointed out that in preparing the report the names of the replying banks were not mentioned and were known only to members of the Council. Mr. Smith added that, in the absence of objection by the Board, it was understood that the members of the Council would transmit copies of the report to the presidents of the respective Federal reserve banks for their confidential information. It was indicated that the Board would have no objection to this procedure.

After a discussion, it was stated that the report would be reviewed by the Board and that it might desire at a later date to discuss the matter with the Federal Advisory Council and to have the advice of the Council with respect to specific suggestions contained in the report. In this connection,

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President Smith stated that the report had just been submitted to the Council and that some of the members had not had an opportunity to read it in its entirety.

Mr. McKee inquired whether the members of the Federal Advisory Council felt that many of the criticisms referred to in the report could be eliminated by proper public relations activities by the Federal reserve banks, to which President Smith replied in the affirmative and stated that it was felt that the services of the members of the Council could be used to good advantage in this connection in presenting the national point of view in each district. Mr. Harding suggested that each member of the Council discuss the report with his Federal reserve bank with the view to meeting some of the criticisms referred to in the report and bringing about a better understanding of the regulations and requirements imposed on member banks. Mr. Smith stated that some of the members of the Council had suggested that if the Board desired to submit a questionnaire to the members of the Council based on the report it be submitted before the summer vacations begin in order that the members may have ample time to give it consideration.

Mr. Lichtenstein then read the following statement, which had been approved at the meeting of the Federal Advisory Council just prior to this meeting, as a basis for the discussion with the Board of the question of examination of banks:

> "While the Federal Advisory Council believes that the present designation of 'slow' as used by the National Bank Examiners might well be changed to a more appropriate title, it believes that in all examinations not only 'loss' and

"'doubtful' loans should be separately listed and totaled, but that substandard or noncurrent loans of a type which a bank would and should not currently make, should also be listed and totaled.

"It believes that the listing and totaling of this type of loan is necessary if directors of banks generally, and the officers of the banks in a great many cases, are to learn from the examiners' reports the true condition and tendency of the bank.

"The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totaled and that this information is necessary if the directors of banks generally are to have an adequate picture of the bank's condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

"The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

"The Council does not believe that market depreciation in securities of high grade should be set up as 'loss' or 'doubtful' by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to the market value. The bank should be given amply reasonable time to create such reserves.

"The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

"The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of nonmarketable investments in relation to their total assets and capital funds."

Mr. Smith stated that several phases of the general question of bank examination were discussed by the Council and, since the Council was aware that the matter was under active consideration by the Board with the Federal Deposit Insurance Corporation, the office of the Comptroller of the Currency and the Treasury, it was felt that some expression from the Council was desirable.

At this point Messrs. Aldrich and Lichtenstein left the meeting.

Mr. McKee stated that he had hoped that out of the discussions which were taking place with respect to examination policy there would be developed a procedure that would prevent the pressure for liquidation in future periods of depression and that would provide a means of placing before the members of the boards of directors of banks, without the necessity of the directors reading an entire report of examination, a statement calling attention to assets and conditions in the bank requiring attention which would be kept before the directors until the matters referred to in the statement had been satisfactorily provided for. He also expressed the opinion that profits on securities sold should be earmarked as reserves to meet future depreciation in the investment account rather than paid out as dividends as had been done in some cases in the past, leaving the bank without adequate provision for possible depreciation in securities.

Chairman Eccles stated that he felt that the policy of bank examination in the United States had resulted in pressure on the banks for liquidation of assets and in difficulties for the banks which were not experienced in other countries where banks are not examined by supervisory authorities; that the policy had not resulted in a sounder banking system since it was not effective in counteracting an inflationary trend or in preventing a deflationary situation, but on the contrary accentuated such situations; and that he would like to see the current discussions develop a policy which would place emphasis on soundness of assets rather than on liquidity, and which would encourage banks to recognize that it is not now possible to find employment for all of their funds in short-term assets and that, therefore, they should place some of their funds in the longer term field in an endeavor to meet the credit needs of the community and thus counteract the increasing demand for the creation of Government agencies to furnish credit. He pointed out that banks can no longer operate on the theory that their assets must be so invested as to enable them to pay off all of their deposits on demand, that in times of stress when there is no satisfactory market for bank assets the rediscount privilege at the Federal reserve banks must be relied upon to furnish liquidity, and that, therefore, the banks should look to the soundness of their assets rather than to their marketability.

In the discussion of the general question which followed some of the members of the Council expressed the opinion that experience had demonstrated that the assets classified as doubtful or loss generally had first been classified by the examiners as slow and that, therefore, the segregation of such assets was desirable. Other members stated that the quality and value of examinations had improved very materially during recent years.

Reference was made to the difficulties that had been encountered during the numerous discussions of the slow classification in reports of examinations in attempting to find a term or classification that would adequately describe the assets which have been placed in the slow column, and to possible methods that might be used to bring such assets to the attention of the boards of directors of the banks if the present practice of listing these assets as slow were discontinued. It was agreed by everyone present that the term "slow" was not a properly descriptive term and should be abandoned.

It was suggested that it would be helpful if the Council were acquainted with the position taken by Mr. Paulger in his discussions with representatives of the Federal Deposit Insurance Corporation, the office of the Comptroller of the Currency, and the Treasury on the question of the treatment of depreciation in securities and the classification of assets other than securities in reports of examination. Mr. Paulger stated that in such discussions he had taken the position:

(1) That the column now known as "slow" should be eliminated from the pages upon which it now appears and that provisions should be made elsewhere in the report, under a heading "loans listed for information or comment" or other suitable heading, for listing with appropriate comment, not totaled and not included in any recapitulation, such loans as the examiner feels should be set out for the information of the directors and proper officers of the bank, with the clear understanding that such loans are not being classified as doubtful or loss and are not necessarily to be regarded as criticized assets.

(2) (a) That only depreciation in stocks and defaulted bonds should be classified as estimated loss and that securities in these groups should be listed and priced in the report of examination.

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(b) That securities in groups I and II should not be priced and preferably should not be listed in the report of examination. A complete list of all securities, however, should be attached to the report of examination sent to the supervisory authorities.

(c) That depreciation other than in stocks and defaulted bonds should not be taken into consideration in computing "net sound capital". On the other hand, it could not be affirmatively stated that depreciation in any securities constitutes sound capital. Therefore it was felt that the schedules showing a computation of net sound capital should be eliminated from the reports of examination.

(d) That unrealized appreciation should not be allowed.

(e) That any premium on bonds purchased should be amortized.

Mr. Paulger outlined the reasons for his position as follows:

The position with respect to the elimination of the "slow" classification is taken in the belief -

1. That it would not weaken the effectiveness of examination procedure or ignore facts, but, on the contrary, would make for a better report of examination.

2. That it would eliminate a deflationary influence and would remove an obstacle to the expansion of bank credit on a sound basis.

The position taken is based upon the following considerations:

1. Loans classified as "slow" are commonly regarded by bankers as criticized loans; they are listed on the same page as loans classified as doubtful and estimated loss, and the recapitulation of the examiner's classification includes the totals of loans classified as: (a) Slow, (b) Doubtful, (c) Estimated Loss. The banker

feels that he is upon the defensive for having "slow" loans in the bank and that loans so classified should be collected or reduced. Classification as "slow" of new or comparatively new loans is regarded, in the absence of any unfavorable developments since the making of the loan, as a criticism for having granted the credit in the first instance.

2. There have been strong claims that because of such classification banks have refrained from making sound loans and have insisted upon collections of sound loans.

3. To the extent that such criticisms are justified, the causes therefor should be eliminated. Whether the claims are justified or not, however, is not the most important matter at this point. So long as the claims are made the psychological effect will be bad and the cause or excuse for such claims should be eliminated, if that can be done without weakening the effectiveness of examination.

4. Regulation A was designed to encourage banks to expand sound loans of all types. This encouragement is offset by the extent to which the slow classification is regarded as a criticism of sound loans. To this extent the term is deflationary and should be abandoned.

5. The "slow" classification is a misnomer, as logically it would indicate that the sole basis for classification was the time of repayment. Such is not the case, however, as the classification does not cover all loans with longer maturity and on the other hand some loans are so classified because of a tinge of doubt as to whether they will ever be collected in full, although the doubtful elements are not so strong as to justify a classification of "doubtful".

6. The slow classification has seemed incapable of exact definition which could be uniformly interpreted by bankers and examiners.

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7. A logical basis for classification of loans in reports of examination is from the point of view of whether payment will be collected in full or whether some loss will be sustained. This seems to be adequately covered by classifications of "doubtful" and "estimated loss".

8. All the good that is accomplished by the slow classification can be retained by the use of another schedule under a heading "Loans listed for information or comment", or other suitable caption. In such schedule the examiner should list, with appropriate comment, all loans which he feels should be called to the attention of the directors and proper officers of the bank. Without attempting to give a complete catalogue of the types of loans which might be so listed, the following are some examples of the type of loans which might be listed:

   (a) Loans with inadequate or uncurrent credit information;

   (b) Loans with inadequate or thin margin of collateral;

   (c) Collateral loans (stock and bond collateral) with unhealthy concentrations in the collateral;

   (d) Loans in connection with which there are collateral exceptions, such as defects in assignments, missing insurance policies, etc.;

   (e) "Work-out" loans, i.e., loans in which loss is not anticipated but which require special attention of the management;

   (f) Loans which are not being properly amortized in accordance with the agreement or sound banking practice;

   (g) Loans listed for record purposes.

9. The schedule referred to above should not be on the same page as the loans classified as "doubtful" or "estimated loss", as a mere change in title would not be sufficient to eliminate the impression that loans so listed are loans subject to the same criticism, although to a lesser degree, as loans classified as doubtful or estimated loss.

10. The loans in the schedule should not be totaled as they are listed for varying reasons and the total would be without significance or even misleading. By the same token, no amount of such loans should be included in the "Recapitulation of classified assets".

11. The examiner, of course, should feel free to comment upon the loaning policy of the bank and upon any unsound concentrations or excessive holdings of any type of loans whether the individual loans are classified as doubtful or estimated loss, listed in the schedule of "Loans listed for information or comment", or not listed in any place in the report.

The position with respect to depreciation in securities is taken in the belief -

1. That in a sound investment policy for banks, emphasis should be on reasonable income and safety of principal, rather than on trading profits.

2. That, regardless of whether security prices be high or low, it is sound and desirable to get away to as great an extent as possible from market quotations.

3. That a program with respect to depreciation in securities should be based upon

   (a) Amortization of all premiums - on U. S. Government and other exempted issues as well as on nonexempted issues.

   (b) Write-down to market of all stocks and defaulted bonds.

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(c) Provision of adequate reserve to take care of future defaults.

(d) Impounding of securities profits until an adequate reserve has been provided thus preventing the treatment of such profits as regular - rather than as non-recurring - income available for dividends, salary increases, and regular operating expenses.

4. That the time to make such a policy effective is when security prices are low and profits can be anticipated rather than at a time when security prices are high and losses, rather than profits can be anticipated.

During Mr. Paulger's statement Messrs. Szymczak and Hanes left the room.

Mr. Smith stated that the Council would meet again this afternoon for the purpose of giving the matter of bank examination further consideration in the light of the discussion at this meeting.

Mr. Brown referred to Bill S. 2171, introduced in the Senate on April 15, 1937, by Senator Byrnes, for the purpose of eliminating from the assessment base used in determining the amount of insurance assessment to be paid by an insured bank to the Federal Deposit Insurance Corporation, the liability of such insured bank for deposits made by another bank (other than deposits of trust funds made by another insured bank). Mr. Brown said that it was understood that the bill might receive favorable consideration by the Senate Committee on Banking and Currency were it not for opposition by the Board of Governors. Mr. Ransom stated that the Board had been requested by the Senate Banking and Currency Committee to submit a report on the bill and that under date of January 25, 1938, the Board had expressed the opinion that to exempt from assessment for deposit insurance purposes balances due to other banks would relieve banks in the financial centers of some of the cost of accepting such deposits and that it was reasonable to expect that such action would have the effect of encouraging the further concentration of interbank balances in such financial centers. During the ensuing discussion attention was directed to the point that if interbank balances were eliminated from the assessment base it might result in a revival of a demand that interest be paid on such interbank balances and a reopening of the question of a change in the existing law.

At the conclusion of the discussion the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.

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