

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 14, 1938, at 10:45 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Thurston, Special Assistant to the  
Chairman  
Mr. Smead, Chief of the Division of Bank  
Operations

Mr. Davis referred to the fact that he and Mr. Szymczak were on April 23, 1938, appointed as a committee to explore the possibilities of the Board holding meetings with the directors of the Federal reserve banks and to formulate a program for such meetings, with the understanding that such committee would submit recommendations to the Board as to the action to be taken. Mr. Davis stated that the committee had canvassed the situation and had embodied its report in a memorandum dated October 10 which was in process of being circulated to the other members of the Board, that it was the recommendation of the committee that arrangements be made to hold a conference in Washington of the chairmen of the boards of directors of the Federal reserve banks some time before December 15, 1938, that, in case any chairman is unable to attend, the deputy chairman be invited and, in any case where no chairman has been designated, the deputy chairman be invited in the first instance with the other Class C director as alternate. Mr. Davis said that it

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had been suggested in the committee's report that such a conference might follow the pattern of the Presidents' Conference, with the chairmen meeting apart from the Board in an initial meeting to be followed by a joint meeting of the Chairmen's Conference with the Board of Governors, possibly on the following day but having in mind that it might be practicable to hold both meetings on the same day on the occasion of the first meeting. He said that the committee did not think it was practicable to make plans at this time for a program of meetings of the Board of Governors with full boards of directors of the Federal reserve banks although such meetings may become important later on in order to bring the boards of directors of the banks and the Board of Governors together to consider questions arising immediately from Federal reserve problems in the respective districts and in the field as a whole.

Chairman Eccles suggested that, since there is a possibility there may be changes in the chairmanships at some of the Federal reserve banks effective January 1, 1939, it might be advisable to defer calling the first meeting of a Chairmen's Conference until about the middle of January or early in February 1939. Chairman Eccles also suggested that the same committee prepare an agenda for consideration by such a conference after having obtained suggestions from the chairmen of the Federal reserve banks and then furnish copies of the agenda to those who would attend the conference in order that they might be prepared to discuss the matters involved at the meeting.

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After a discussion, it was agreed unanimously that the committee's recommendation should be approved with the understanding that the first meeting would be called in January 1939, and that Messrs. Davis and Szymczak would undertake to prepare agenda for the meeting.

At this point Mr. Clayton, Assistant to the Chairman, joined the meeting.

Telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Kimball and Hays, Secretaries of the Federal Reserve Banks of New York and Cleveland, respectively, Mr. Leach, President of the Federal Reserve Bank of Richmond, Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, Messrs. Young and Powell, Secretaries of the Federal Reserve Banks of Chicago and Minneapolis, respectively, Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, Mr. McKinney, President of the Federal Reserve Bank of Dallas, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of San Francisco on October 11, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, Minneapolis, Kansas City and Dallas on October 13, 1938, and by the Federal Reserve Banks of Boston and Atlanta today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Mr. McKee indicated that he felt that the problem confronting

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some of the Federal reserve banks growing out of the deposit by member banks of fit currency with the reserve banks at the close of business each day and withdrawing approximately the same or a larger amount the following morning should be brought to a definite conclusion as soon as possible. It had occurred to him, he said, that since this matter would no doubt be discussed at the meeting of the Presidents' Conference on October 24 it might be well for the Presidents to bring with them operating officers who were familiar with the details involved. In this connection, reference was made to the Board's letter on this subject to all Presidents under date of October 7, 1938 (R-319) and to a letter from Mr. R. H. Buss, Managing Director of the Detroit Branch, to President Schaller, in regard to the practice in that city where the problem is acute, a copy of which had been furnished to the Board.

At the conclusion of a discussion, it was agreed unanimously that Mr. Szymczak should ask President Schaller to have Mr. Buss accompany him to the meeting of the Presidents' Conference on October 24, 1938.

(Secretary's Note) Mr. Szymczak advised the Secretary's Office later in the day that he had talked with Mr. Schaller over the telephone and had requested that he have Mr. Buss accompany him to the meeting of the Presidents' Conference on October 24.

Mr. Davis informed the Board as to the status of the booklet prepared by Mr. Hammond, of the Division of Bank Operations, containing material descriptive of the Federal Reserve System and suggested

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that the Board authorize the sending of mimeographed copies of the draft in its tentative form to the Presidents of the Federal reserve banks for their criticisms and suggestions with a view to its publication as soon as practicable. Mr. Davis said that he would like to have each member of the Board read the draft and indicate any criticisms or suggestions which he might have.

Following a discussion, upon motion by Mr. Davis, it was agreed unanimously that the members of the Board who had not already done so would read the manuscript and make such criticisms and suggestions as might occur to them, and that a copy of the manuscript would be forwarded to each of the Presidents of the Federal reserve banks with a covering letter reading as follows:

"In recent years the Board has received an increasing number of inquiries of a general character regarding the functions and operations of the Federal Reserve System and requests for material that might be used for educational purposes regarding the System. In answering such inquiries, the Board has furnished available mimeographed and other material, including lists of publications bearing on the subject and copies of booklets or pamphlets which have been printed by some of the Federal Reserve banks, but it has been recognized that this procedure has not been entirely satisfactory. The Board, therefore, has felt that there was need for an authoritative pamphlet or booklet describing the Federal Reserve System and explaining its functions and operations from a purely educational point of view, written in a style which would appeal to and be readily understood by the average person.

"Accordingly, the Board's staff for some time past has been working on a manuscript containing information designed to meet this need. This work has now progressed to a point where the Board would like to have the benefit of the advice of the Presidents of the Federal Reserve banks. For this purpose there is inclosed a copy of the text in tentative form which the Board desires that you

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"read carefully with a view to submitting comments and suggestions which you think would be helpful (a) with respect to its form and content and (b) with respect to what would be the most desirable and effective plan for publishing and distributing such a pamphlet.

"As the Board desires to arrange for printing the manuscript as soon as practicable, it will appreciate your reply not later than November 16, 1938."

Mr. McKee stated that he would like to have the Board review carefully the position which it has taken with regard to extending the time fixed by Congress for the termination of certain relationships under Section 8 of the Clayton Act, in view of the requests which have been received from bankers in various cities. A discussion ensued and it was the consensus that the matter should be placed on the docket for consideration at the first full meeting of the Board subsequent to November 1, 1938.

Approval was given to certain recommendations of Mr. Spurney, concurred in by Mr. Morrill, as to economies to be effected in the operation of the cafeteria for the purpose of reducing its expenses, as set out in a memorandum dated October 12 from Mr. Spurney, including the purchase of a silver burnishing machine at a cost of \$312.50. Approval was also given to an increase in the price of the special plate luncheon to 30¢ and to increases in the prices of all soups to 10¢ as recommended by Mr. Spurney in the above mentioned memorandum.

At this point Messrs. Thurston and Smead left the meeting and the action stated with respect to each of the matters hereinafter referred to was taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 7, 1938, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 11 and 13, 1938, were approved and the actions recorded therein were ratified unanimously.

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

"Reference is made to your letter of August 24, 1938, requesting advice as to whether, in view of the Board's letter of September 30, 1936, X-9709, your bank should maintain two accounts representing the deposit of uninvested trust funds by the California Trust Company, Los Angeles, California, a member institution which transacts no commercial banking business. It is understood that the two accounts opened on your books represent a segregation of uninvested court and private trust funds, as required by the laws of California, and it is expected that the accounts will not be of a temporary nature.

"In view of the representations made regarding the accounts of the California Trust Company, the situation of a number of member banks which are subject to a condition of membership requiring the pledge of securities to cover trust funds deposited in their own commercial banking departments but are not permitted by State law to make such a pledge, and the possible temporary need of other member banks operating trust departments which was the basis for the Board's letter of September 30, 1936, X-9709, the Board will offer no objection to the receipt of deposits of uninvested trust funds in special accounts by the Federal Reserve banks from:

- (1) any member bank for a temporary period when in the judgment of the Federal Reserve bank, circumstances render such service to the particular bank desirable,

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"(2) any State member bank subject to the condition of membership that trust funds deposited by the bank in its banking department shall be secured by pledge of collateral with the trust department and located in a State whose laws do not permit the pledge of collateral for the purpose, and

(3) any member trust company which transacts no savings or commercial banking business.

"As indicated in the Board's letter of September 30, 1936, deposits of funds received by a member bank in a fiduciary capacity and deposited in a Federal Reserve bank in a special account may not be counted as a part of the member bank's reserve balance with the Federal Reserve bank.

"While the Board feels that the matter of requiring an agreement, as suggested in its letter of September 30, 1936, as well as the question of restrictions upon the source and disposition of trust funds received on deposit under the authority contained in this letter, are for the determination of each Federal Reserve bank in consideration of the laws and court decisions in the States included in its district, it is assumed that, in any case in which uninvested trust funds are received by a Federal Reserve bank, it will take such steps in consultation with its counsel as may be deemed necessary to eliminate or minimize any possibility of litigation or loss to the Federal Reserve bank."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to Mr. Fletcher's letter of September 30, 1938, advising that The Elyria Savings & Trust Company, Elyria, Ohio, proposes to amend its articles of incorporation so as to permit the bank to engage in 'special plan banking' and recommending that the Board approve the proposal under the provisions of the general condition of membership to which the bank is subject, which provides that, except with the permission of the Board, the bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission



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"to membership. According to Mr. Fletcher's letter 'special plan banking' is the term used by the Ohio Statutes for small loan business and it is noted that the banking laws of that State permit banks upon suitable amendments to their articles of incorporation to establish departments for the transaction of business of this type.

"The Banking Act of 1933 made Morris Plan banks and other incorporated banking institutions engaged in similar business eligible for membership in the System and during recent years commercial banks to a noticeable extent have broadened their activities to include the making of small or personal type loans, and have established separate departments to facilitate the functioning of such business. While such extension of activities may to some extent constitute a change in the general character of the bank's business and in some cases, at least, involve a change in the scope of the corporate powers exercised by the bank, the change is not felt to be such as would come within the intent of the general condition of membership.

"Accordingly, banks desiring to engage in such activity will not be required to obtain the permission of the Board under the general condition of membership. It is assumed, of course, that in such cases any necessary approval of the State authorities will be obtained and that the business will be conducted in strict accordance with the applicable State laws."

Approved unanimously, together with  
a letter to the Presidents of all Federal  
reserve banks transmitting for their in-  
formation a copy of the letter to Mr.  
Fleming.

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

"Inclosed is a copy of the program for the conference of representatives of the examination departments of the reserve banks, which will be held in Washington commencing Monday, October 31, 1938.

"It is contemplated that the conference will be largely in the nature of a round table discussion of the various matters which have been or may be brought up for consideration, and it is believed that the program is broad enough

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"to cover the various suggestions as to topics which have been received from the Federal reserve banks. It is requested that the representatives of each reserve bank be prepared to discuss the various subjects which they have submitted for consideration at the conference.

"Included in the replies received from the reserve banks were requests for information or interpretations as distinguished from suggestions for discussion at the conference. It will be the endeavor to answer such questions specifically at the conference."

Approved unanimously.

Memorandum dated September 28, 1938, from Mr. Morrill submitting for approval by the Board a draft of entry for the policy record required by section 10 of the Federal Reserve Act to be kept by the Board covering action taken by the Board on August 31, 1938, with respect to an amendment to Regulation L, Interlocking Bank Directorates Under the Clayton Act, to discontinue permission granted to a private banker or a director, officer or employee of a member bank to serve a Morris Plan bank or similar institution, effective February 1, 1939.

Approved unanimously.

Letter to Mr. George L. Harrison, Vice Chairman, Federal Open Market Committee, reading as follows:

"In accordance with the procedure which has been in effect for some time, there are attached drafts of entries for the policy record covering actions taken by the Federal Open Market Committee at its meetings on August 2 and September 21, 1938. It will be appreciated if you will review the drafts and advise as promptly as possible whether you have any comments or suggestions to make with respect thereto.

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"A letter identical with this is being sent to the other representative members of the Federal Open Market Committee."

Approved unanimously.

Memorandum dated October 10, 1938, from Mr. Smead, Chief of the Division of Bank Operations, recommending that, for the reason stated in the memorandum, the sum of \$600 be added to the budget for that Division to cover traveling expenses during the remainder of the current year.

Approved unanimously.

Thereupon the meeting adjourned.

Charles Morris  
Secretary.

Approved:

W. Smead  
Chairman.