

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 31, 1938, at 11:00 a. m.

PRESENT: Mr. Eccles, 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

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 29, 1938, were approved unanimously.

Memorandum dated October 24, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, the salary of Leroy M. Piser, Senior Economist in the Division, be increased to \$5,400 per annum.

The recommendation was approved unanimously, to be effective immediately.

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

"As you know, the unsatisfactory situation with respect to 'The State Bank of Geneva', Geneva, Illinois, with

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"particular reference to the domination of its management by President Oscar Nelson and the large aggregate of credit extended to him and his interests, has been the subject of correspondence and informal discussion with your office during recent years.

"The report of examination of the bank as of May 14, 1934, contained unfavorable comments on the management in view of which the Board wrote Federal Reserve Agent Stevens on October 2, 1934, and asked that it be kept advised as to the action taken to provide the bank with a capable management as it was reported that 'the influence of President Oscar Nelson, who dominates the institution completely, is distinctly detrimental to the interests of the depositors and stockholders.' In your reply dated October 4, 1934, you stated that Mr. Nelson had been called into your office on several occasions since the examination when the unsatisfactory situation was discussed with him and that you did not think it would be in the public interest at the time, regardless of remarks concerning Mr. Nelson, to have him completely removed from the bank as the depositing public had confidence in him and you were afraid of an unfavorable reaction if his connection with the bank were severed. You also stated you were firmly of the opinion that an officer of force should be employed and that Mr. Nelson should remain as the nominal head of the bank but shorn of responsibility as to loans.

"Various correspondence subsequently passed between your office and the Board relating to the management situation and the concentration of credit to Mr. Nelson and his interests. During this time you reported that the State banking authorities were following the situation closely, that one of the State department's representatives who lived in Geneva was working persistently on the case, that you were keeping in close touch with the State authorities, and that you felt, in the circumstances, it was preferable to work through them for an improvement of the situation. In your letter of May 19, 1936, you reported that the pressure which the State banking authorities had been exerting was bearing fruit and that it was your understanding that Mr. Nelson was slowly fading out as the dominant factor. On November 28, 1936, you again advised the Board that you felt everything possible was being done at the time to improve the situation and that you should not further disturb the situation but should continue to work through the State banking department.

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"Your letter of February 4, 1937, reported that you had been informed by the State authorities that Mr. Nelson had been reelected president, without salary, that two new directors had been elected to the board, and that the State examiner who had been following the situation was of the opinion that Mr. Nelson would have practically no influence on the bank's future operations.

"However, the data transmitted with your letter of January 7, 1938, indicated that Mr. Nelson was again in active charge and the report of your examiner, who had recently visited the bank, stated that he had conferred with a majority of the members of the bank's board of directors, discussing with them the matter of Mr. Nelson's management and that these directors felt that Mr. Nelson was the individual best suited to work out the situation of the bank.

"The report of examination of the bank as of May 31, 1938, again reported criticisms of President Nelson's management and stated that it seemed imperative for the bank to be placed under a new active management. The examination disclosed that little real progress had been made in reducing the aggregate extensions of credit to Mr. Nelson and his interests and the examiner stated he believed President Nelson should be warned in accordance with the provisions of Section 30 of the Banking Act of 1933 against a continuance of his present practices regarding loans to his interests.

"In July you indicated informally that while in the past the State banking authorities had felt that they could work out the situation and preferred to handle it in that manner, it was their view that the time had come for the Federal Reserve authorities to take a more active part in trying to obtain the desired corrections and improvements.

"In view of the efforts which have been made in the past four years to have the affairs of the bank conducted along sound lines and the fact that little progress apparently has been made in strengthening the management and in materially reducing and placing the extensions of credit to Mr. Nelson and his interests in a satisfactory condition, it is felt that the existing situation should no longer be tolerated and that prompt and definite action should be taken to assure that the bank's affairs will be properly conducted.

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"It will be appreciated if you will advise the Board as to the steps which your office will take to effect a correction of the present unsatisfactory situation."

Approved unanimously.

Memorandum dated October 29, 1938, from Mr. Parry, Chief of the Division of Security Loans, reading as follows:

"The Trading and Exchange Division of the SEC, acting by direction of the Commission and working through its section of Research and Statistics in collaboration with the Board's Division of Security Loans, has developed after extensive negotiation with the New York Stock Exchange certain plans for revising and extending the Commission's reporting service. The revision would include releasing certain member firms of the Exchange (about 19 firms) from an SEC arrangement effected about two years ago by which these firms make certain monthly reports on 'restricted accounts' (reports are being made under increasing protest), and the extension would consist of developing a reporting service designed to show currently several new items, viz, the increase or decrease in the total number of margin accounts carried by member firms, also in the number of active margin accounts and active cash accounts; the shifts from time to time in the proportion of the total trading (in stocks) that is represented by margin accounts as compared with cash accounts; and most important of all current information as to whether, from week to week or month to month, the net balance of trading for margin traders and cash traders, respectively, has been on the buying side or on the selling side.

"It seems to me that current figures of this description would be of great value to the Board (as well as to the Commission), and that the Board should do all that it reasonably can to help along such a reporting service and to influence its development along constructive lines.

"It is a matter of common agreement, however, among representatives of the SEC, of the Stock Exchange, and ourselves, that before any decision is made to inaugurate any such reporting service there should be a preliminary survey that will provide relevant facts and figures to be

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"studied by the Commission, the Exchange, and the Board. The Exchange has participated in devising appropriate schedules for such a survey, and is now willing to make the survey and to give copies of the returns both to the Commission and to the Board -- on two conditions. These conditions, which seem to me to be altogether reasonable, are (1) that the Exchange may say to its member firms that the survey has been requested, or at least that it has been suggested, by the Commission and the Board, and (2) that the Exchange is to reserve judgment as to whether figures of this description will be of value and is not to give in advance any indication that the Exchange will eventually consider the inauguration of a regular reporting service along these lines to be either necessary or desirable.

"The Exchange is ready to start the preliminary survey as soon as an appropriate letter from the Exchange to its member firms, of which a tentative draft is attached, can be agreed upon. This draft has been worked out by cooperation between the Economist of the New York Stock Exchange, representatives of the SEC, and myself. It requests the member firms to provide the desired data and does so in a manner that conforms to the two conditions that have been specified above.

"It is my recommendation that the Board authorize the inclusion by the Exchange in its letter to member firms, in connection with the letter's reference to the Commission, of a similar reference to the Board, provided that reference is substantially in terms and context illustrated by the attached draft letter."

The recommendation was approved  
unanimously.

Memorandum dated October 24, 1938, from Mr. Goldenweiser, Director of the Division of Research and Statistics, referring to the action taken by the Board on June 23, 1938, and stating that a request had now been received for a contribution by the Board, in conjunction with contributions by other Governmental agencies and certain private organizations, for technical assistance on the study of corporate bonds

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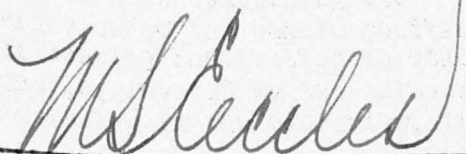
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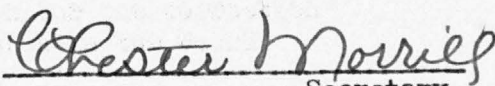
now being planned as a WPA project to be sponsored by the Federal Deposit Insurance Corporation and conducted under the direction of the National Bureau of Economic Research; the Board's contribution to be in the form of assigning to the work a member of the staff of its Division of Research and Statistics and paying the expenses of travel in connection with the project, such contribution, figured in dollars, amounting to \$6,250. The memorandum also stated that the project will supply comprehensive data on corporate financing and yields of corporate bonds since 1900 and on experience with bond ratings, and that such data will fill important gaps in the Board's data on corporate bonds and help in a number of ways to give more adequate service on problems coming before the Board. Another use of the study, the memorandum stated, will be in connection with the problem of developing standards for bank investments in corporate bonds. The memorandum recommended, therefore, that the Board cooperate in the study to the extent set forth above.

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.