

12/9/38 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 9, 1938, at 10:30

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. Vest, Assistant General Counsel
 Mr. Wingfield, Assistant General Counsel
 Mr. Leonard, Assistant Chief of the Division
 of Examinations
 Mr. Horbett, Assistant Chief of the Division
 of Bank Operations

Chairman Eccles stated that December 23 of this year will mark the twenty-fifth anniversary of the signing of the original Federal Reserve Act and he presented for discussion the question what should be done by the Board in recognition of the occasion. He suggested that a simple ceremony might be arranged which would consist of the unveiling of the bronze bas relief of Senator Glass which had been made for the panel at the west side of the Constitution Avenue lobby

12/9/38

-2-

of the Board's building with brief remarks by the Chairmen of the House and Senate Banking and Currency Committees. It was also suggested that the invitations should be restricted to the President, a few representatives of the Treasury, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, former members of the Board and perhaps representatives of the Federal reserve banks, the members of the Senate and House Banking and Currency Committees, and certain close relatives of Senator Glass.

The matter was referred to the Personnel Committee with power to act for the Board, and, upon the Committee's approval, the Board's Secretary was authorized to incur such expenses as might be found necessary to carry out the program.

There were presented 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, Stewart and Powell, Secretaries of the Federal Reserve Banks of Chicago, St. Louis 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

12/9/38

-3-

of San Francisco on December 6, by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City and Dallas on December 8, 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.

There was also presented a memorandum dated December 7, 1938, from Mr. Sneed reading as follows. Copies of the memorandum had been sent to the members of the Board before this meeting:

"There is attached hereto a draft of revised Form FR 105, call report of State bank members, which is substantially the same as the forms adopted by the Comptroller of the Currency for the use of national banks and the Federal Deposit Insurance Corporation for the use of insured nonmember banks. The Executive Committee of the Association of State Bank Supervisors on December 5 also decided by resolution to approve the form and to recommend to State banking departments that, if practicable, they adopt the same form of report. Detailed instructions governing the preparation of reports on the revised form have also been drafted (copy attached) by representatives of the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. These instructions are being reviewed by the staffs of the three agencies. Some relatively unimportant changes will be necessary, and it is possible that in order to reduce the size of the printed instructions some paragraphs may be omitted, particularly by the Comptroller's office. The important differences between the forms and instructions to be provided for the use of national banks, State bank members and insured nonmember banks, respectively, which I should like to bring to the Board's attention, are as follows:

"1. Capital account. The Board's instructions as drafted provide that the aggregate amount of 'Capital' as extended against item 25 shall be the

12/9/38

-4-

"retirable value of preferred and common stock and capital notes and debentures, while the drafts of the Comptroller's and the Federal Deposit Insurance Corporation's instructions provide for the extension of the par value of preferred and common stock and capital notes and debentures. Both the retirable and the par values will be shown in a footnote provided for the purpose in the report forms to be used by State bank members and insured nonmember banks, and under the item 'Capital stock' in the national bank report form.

"Under the Board's instructions the amounts reported as 'Surplus' and 'Undivided profits' would be the excess of capital funds over retirable value of capital; under the Comptroller's and the Federal Deposit Insurance Corporation's instructions they would be the excess over par value of capital. The Board's instructions provide, however, that a bank may extend the par value of stock against the 'Capital' caption and still show a surplus if it adds the words 'over par value of capital stock' after 'Surplus', or after 'Undivided profits' in case there is no surplus. The instructions of both the Board and the Federal Deposit Insurance Corporation will continue to permit a bank to omit from 'Capital' any capital notes and debentures outstanding, provided the amount of such obligations is shown in a footnote and the words 'before providing for capital notes and debentures' are added after 'Surplus', or after 'Undivided profits' in case there is no surplus.

"The Board's instructions as drafted agree with the Board's present position (letters B-966, X-9379 and X-9836, extract and copies attached). That position is based on the view that it is incorrect for a bank to show any surplus or undivided profits (without specific qualification) if its capital funds are not equal to the retirable value of preferred stock (the amount which must be paid to preferred stockholders in case of liquidation) plus the par value of common stock. The Comptroller's and the Federal Deposit Insurance Corporation's position is based partly on the provisions of Section 345 of the Banking Act of 1935 (quotation attached). The Comptroller's office originally took the same position as the Board, but

12/9/38

-5-

"changed its position soon afterwards. The Federal Deposit Insurance Corporation now proposes to change its position to conform with the Comptroller's present position.

"2. Obligations not included in liabilities.

The Comptroller's office will omit from the national bank form item 33 on the attached draft of Form FR 105 which calls for the amounts of --

- (a) Unpaid dividends on preferred stock and unpaid interest on capital notes and debentures, accrued to end of last dividend or interest period, not included in liabilities or reserves above
- (b) Other obligations not included in item 24 which are subordinated to claims of depositors and other creditors

"It is understood that the second part of item 33 will be omitted by the Comptroller's office on the ground that no national banks have such subordinated obligations. We have not been definitely advised why the first part of the item will be omitted, but we understand that it is on the ground that relatively few national banks are in arrears on preferred stock dividends and that it is not a type of obligation which needs to be included in the published statement.

"As item 33(a) was drafted, it did not include the last clause 'not included in liabilities or reserves above'. This change was made at the meeting of the Executive Committee of the Association of State Bank Supervisors so as to permit banks which had sufficient funds with which to pay such dividends or interest to make provision therefor by charging the amounts thereof to undivided profits and crediting them to reserves. This was done as certain supervisors pointed out, particularly Mr. Gossett from Texas, that a number of banks that were in arrears with such payments actually had sufficient amounts of undivided profits on their books to pay accumulated interest or dividends, but were prevented from doing so by the supervisory banking authorities who felt that such payments should not be made until the banks were in somewhat better condition. So long as the banks were willing to make the payments, the supervisors felt that the banks

12/9/38

-6-

"should not be required to specifically state that the payments had not been made, and that making provision therefor in reserves was adequate in the circumstances. This would leave the amount in the capital account, and there may be some question as to whether this method of reporting is entirely satisfactory, but under the circumstances and in order to reach an agreement on the form I feel that the revised caption should be adopted.

"3. Acknowledgment before notary public. The national bank report form will continue to include the existing requirement that the report be sworn to, as required by law, and the forms provided by most of the State banking departments doubtless will include this requirement, at least for the time being, perhaps because of statutory requirements. The requirement has been eliminated from the forms drafted for the use of State bank members and insured nonmember banks, since that is not a statutory requirement and it is felt that the directors' attestation is more important and will suffice.

"Incident to the elimination of the acknowledgment before a notary public, the 'Publisher's certificate' of publication of reports of State bank members and affiliates (Forms FR 105e and 220a, copies attached) have been changed to certificates to be signed (but not sworn to) by an officer of the State bank member. While there is nothing in the law requiring any certificate of publication, it is believed desirable to continue to require some evidence of publication. The member bank's certificate of publication would appear to be satisfactory, however, since the responsibility for correct publication rests upon the member bank. The amended procedure will eliminate the expense of the notary's acknowledgment by the publisher. We understand that the Comptroller's office will not, at this time, substitute a bank's certificate for the publisher's certificate of reports rendered by national banks and their affiliates. Copies of published statements clipped from papers in which they are published accompany the reports submitted to the Comptroller and to the Board.

"4. Valuation allowances. In the State bank

12/9/38

-7-

"member and insured nonmember bank report forms provision has been made for the deduction from the appropriate asset accounts of all valuation allowances and reserves for bond premiums. No such provision has been made in the national bank form, since the Comptroller's office does not permit valuation allowances to be set up in lieu of charge-offs and requires that reserves for bond premiums set up by direct charges to undivided profits be included in 'Reserves for contingencies, etc.'

"5. Secured liabilities. The instructions pertaining to reports of State bank members and insured nonmember banks provide that a liability should be deemed to be secured only to the amount of the book value of the collateral pledged. The Comptroller's instructions provide that the amount reported as secured liabilities shall represent the full amount of deposits or other liabilities secured in whole or in part by pledged assets. The difference in instructions is based, in part at least, on differences in interpretations of law and court decisions.

"Attention is called to asset item 9, 'Investments and other assets indirectly representing bank premises or other real estate'. This is a new item against which will be reported indirect ownership of bank premises and other real estate, now reported in loans and investments."

There was a discussion particularly of (1) the requirement of the proposed instructions of the Board that the aggregate amount shown in the report against the item "capital" be the retirable value of the preferred and common stock and capital notes and debentures rather than the par value of these items and (2) the memorandum at the bottom of the form of report which, among other things, called for a statement of unpaid dividends on preferred stock and unpaid interest on capital notes and debentures accrued to the last dividend or interest period not included in liabilities or reserves. With respect to the first

12/9/38

-8-

item, it was felt that, inasmuch as the Comptroller of the Currency and the Federal Deposit Insurance Corporation were in agreement that the par value of capital stock and capital notes and debentures should be shown in the report against the item "capital" and since this item was explained in the report by a note showing both the par and retirable values of these items, the Board's instructions should be changed to agree with the proposed instructions of the other two agencies. It was also felt with respect to the second item that no change should be made in the form of report for the reasons stated in Mr. Smead's memorandum and for the further reason that, when matters of material substance are not involved and where the forms of report of the Comptroller of the Currency and the Federal Deposit Insurance Corporation are not in agreement, the forms of the Board and the Federal Deposit Insurance Corporation should agree so that the forms used by member and insured State banks will be uniform.

Mr. Smead stated that the draft of the instructions of the three agencies provides that gross reciprocal bank balances shall be reported rather than the net amount of such deposits and that in a telephone conversation this morning with Mr. Gough, Deputy Comptroller of the Currency, the latter had indicated that he was inclined to the view that the instructions should be changed to provide for reporting the net amount of reciprocal bank balances. This point was discussed and it was the consensus that the instructions should not be changed

12/9/38

-9-

and that Mr. Smead should advise Mr. Gough accordingly.

At the conclusion of the discussion, Mr. Davis moved that the form of report be approved, together with the proposed instructions, incorporating the change referred to above, and with the understanding that Mr. Smead would be authorized to make such minor changes in the instructions as may be found to be desirable in consultation with representatives of the office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

At this point Messrs. Davis and Wingfield left the meeting.

Before this meeting the attention of the members of the Board had been drawn to a memorandum dated December 1, 1938, from Mr. Smead referring to the fact that at their recent conference the Presidents of the Federal reserve banks had voted to disapprove the recommendations of the Standing Committee on Collections that each Federal reserve bank give two-days deferred credit for all country items payable anywhere in the United States when received from its member banks in a single cash letter and that one-day deferred credit be given for items that can be collected in one day when received from its own member banks in separate cash letters and to approve in principle the alternative suggestion that each Federal reserve bank give two-days deferred credit for all country items payable in its own territory and three-days deferred credit for all such items payable in other Federal reserve districts except that member banks would receive one-day deferred credit

12/9/38

-10-

for one-day items and two-days deferred credit for two-days items if sorted separately and sent to the Federal reserve bank in separate cash letters. It was stated that it appeared that the Presidents had in mind limiting the simplification of the present check collection procedure to what could be done without absorbing any appreciable amount of float and that, since this position differed from Mr. Smead's understanding of what the Board had in mind when it asked the Presidents' Conference to have the check collection procedure reviewed, he was bringing the matter to the attention of the Board, inasmuch as the Standing Committee on Collections, at its meeting in St. Louis on December 12, would have no alternative but to follow the instructions given by the Presidents' Conference.

After a discussion, it was decided that no action should be taken on the matter by the Board at this time but that Mr. Szymczak should discuss the matter with President Harrison, Chairman of the Presidents' Conference, and that Mr. Smead should attend the meeting of the Standing Committee on Collections as he had planned to do and express to the members of the committee the views of the Board regarding changes in the check collection system.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, Goldenweiser, Vest, Leonard and Horbett left the meeting.

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

12/9/38

-11-

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 8, 1938, were approved unanimously.

Memorandum dated December 5, 1938, from Mr. Sneed, Chief of the Division of Bank Operations, recommending that, for the reasons stated in the memorandum, Form F.R. 107, semi-annual report of earnings and dividends of State member banks, be amended as shown on the copy of report attached to the memorandum. The memorandum stated that with the proposed changes the Board's Form F.R. 107 will continue to be in harmony with the corresponding form of report of national banks, which it was understood had already been revised in substantially the manner indicated.

Approved unanimously.

Letter to Mr. Harrison, Chairman of the Conference of the Presidents, reading as follows:

"Since early in 1938, the legal risks incurred by the Federal Reserve banks in collecting warrants drawn on States and political subdivisions have been the subject of considerable correspondence between the Board's General Counsel, Counsel for the twelve Federal Reserve banks, and the Chairman of the Standing Committee on Collections.

"The question whether the collection of municipal warrants should be discontinued was referred to the Standing Committee on Collections and that Committee, in its report to the Conference of Presidents under date of May 26, 1938, recommended that the Federal Reserve banks continue the present practice of handling such warrants in view of the value of the service to their member banks and the fact that no serious losses or difficulties had

12/9/38

-12-

"resulted up to that time from the handling of such items.

"Since that date, the object of the correspondence with respect to this matter has been to work out some means by which the legal risks involved in handling municipal warrants may be reduced to a minimum. However, so many various suggestions have been made that it seems impracticable to reach a solution of the problem by means of correspondence alone.

"In the meantime, suit has been instituted in Chicago in the case of Scoville v. Board of Education to recover amounts alleged to have been illegally paid on certain tax anticipation warrants of the Board of Education of that city; and the Federal Reserve Bank of Chicago has been named one of the party defendants in the case with a potential liability of approximately \$240,000, thus demonstrating that apprehensions as to the risks incurred by Federal Reserve banks in handling municipal warrants were not without foundation. It is possible that an adverse decision in the case may produce an epidemic of suits against the Federal Reserve banks and for this reason it seems desirable that a means of legally protecting the Federal Reserve banks in collecting municipal warrants be decided upon as soon as possible.

"In the circumstances, the Board of Governors feels that a solution of the problem would be expedited if it were referred to the Standing Committee on Collections for consideration in consultation with the Board's General Counsel and a small committee of Federal Reserve bank counsel. Accordingly, if you have no objections, it will be appreciated if you will have this matter referred to the Standing Committee on Collections for consideration as above suggested."

Approved unanimously.

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

"Recently the National Emergency Council advised us that, through arrangements with numerous broadcasting stations throughout the country, it had the privilege of broadcasting at frequent intervals information about

12/9/38

-13-

"activities of a Governmental and related character which are considered to be of interest to the public. It is understood that usually the material for this purpose is prepared by the agency affected in question and answer form, and that a State representative of the National Emergency Council asks the questions, a representative of the agency affected answering them. We were furnished with copies of scripts used for this purpose with respect to the Reconstruction Finance Corporation and the Federal Deposit Insurance Corporation. We were asked to cooperate by preparing a script of this type which could be used for the purpose of describing the Federal Reserve System. It was understood that the script should be short enough so that its contents, together with appropriate introductory and closing announcements, could be delivered within a space of 15 minutes.

"In view of the request, a draft of such a script has been prepared and copies are transmitted herewith for your examination. There is also inclosed a list of State representatives of the National Emergency Council grouped according to Federal Reserve districts. We were advised that, when we release the script to the National Emergency Council, copies will be furnished to these representatives and they will be requested to contact the appropriate Federal Reserve banks for the purpose of arranging the details of broadcasting.

"It will be appreciated if you will review the inclosed script and advise us whether you have any objection to cooperating in this project and also advise us at the same time of any changes which in your opinion should be made in the contents of the script. The portions inclosed in parentheses may be omitted without loss of continuity in case it seems desirable to do so in order to shorten the time used in making the broadcast. As we are being pressed repeatedly by the National Emergency Council for its release, we will be glad if you will let us hear from you at your earliest convenience."

Approved unanimously, with the understanding that similar letters would be sent to the Presidents of all other Federal reserve banks.

12/9/38

-14-

Thereupon the meeting adjourned.

Chessee Howell
Secretary.

Approved:

W. C. ...
Chairman.