

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, February 27, 1939, 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. Parry, Chief of the Division of Security Loans
 Mr. Vest, Assistant General Counsel
 Mr. Wingfield, Assistant General Counsel
 Mr. Leonard, Assistant Chief of the Division of Examinations
 Mr. Thomas, Assistant Director of the Division of Research and Statistics
 Mr. Brown, Special Assistant in the Division of Security Loans
 Mr. Williams, Assistant Counsel

Mr. Ransom referred to a memorandum addressed to the Board under date of February 25, 1939, by Mr. Vest relating to the provisions of Bill H.R. 4425, a bill to provide for reorganizing agencies of the Government, and for other purposes, and at Mr. Ransom's request,

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Mr. Vest outlined briefly the provisions of the bill and the respects in which it differed from the reorganization bill considered by Congress at the last session. Mr. Vest called attention to the fact that the Board of Governors was not specifically exempted from the provisions of the bill and that, while the Board of Governors might not be subject to the Budget and Accounting Act of 1921, the intention was not clear.

Mr. Williams stated that in a conversation yesterday with Representative Cochran, Chairman of the Select Committee on Government Organization, the latter said that it was the intention of the committee that the Board of Governors should not be exempted from the provisions of the bill and that it should be made subject to the Budget and Accounting Act of 1921. He also requested, Mr. Williams said, that copies of the Board's annual report for 1938 be sent to the members of the Select Committee on Government Organization for use in connection with the consideration of a suggestion that the question of desirable banking legislation be made a matter for separate consideration.

Upon motion by Mr. McKee, it was agreed unanimously that copies of the reprint from the Board's annual report should be sent to each member of the Select Committee on Government Organization with a letter of transmittal stating that the copies were being sent at the request of Representative Cochran.

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At this point Messrs. Vest and Williams left the meeting.

Chairman Eccles stated that the Secretary of the Treasury had requested from the Board of Governors and from the Federal Reserve Bank of New York memoranda with respect to the desirability of the Treasury reducing its weekly offering of Treasury bills to \$50,000,000 and, at the time of the March financing, issuing additional long-term securities. He said that the report of the New York bank in which the action was not favored was now in the hands of the Secretary and that a draft of a report to be made by the Board had been prepared by the Division of Research and Statistics and was ready for consideration by the Board. At Chairman Eccles' request Mr. Goldenweiser outlined briefly the reasons set forth in the report why the proposed action was not desirable.

At the conclusion of a discussion of various points covered by the report its transmission to the Secretary of the Treasury by messenger was approved unanimously.

In accordance with the action taken at the meeting of the Board on February 27, 1939, a revised draft of report on Senate Bill 477, known as the Trust Indenture Bill, had been prepared and copies of the draft had been furnished to the members of the Board on February 23, 1939. A further revision of the draft had been prepared following informal discussions on February 25 and copies of this

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revision were distributed among the members of the Board at this meeting.

Mr. Draper stated that at the request of members of the Board he had inquired of Senator Wagner whether it would be satisfactory if the Board's report on the bill reached the Senate Committee on Banking and Currency by March 1, 1939, and that Senator Wagner had replied that, while he would like to have the report as promptly as possible, it would be agreeable if it was in his hands not later than March 1, 1939.

The last draft of report was read following which Mr. Ransom pointed out that it appeared that the broad purpose of the bill was to make corporate trustees more active in protecting the interest of security holders issued under trust indentures.

There followed a general discussion of various provisions of the bill as well as of the proposed report during which Mr. Ransom stated that he had advised Chairman Douglas of the Securities and Exchange Commission that the Board had received a request for a report on the bill and that Chairman Douglas had stated that he would be pleased to have representatives of the Board discuss with Commissioner Eicher of the Securities and Exchange Commission any report that the Board decided to make to the Senate Committee on Banking and Currency. Mr. Ransom also said that the Comptroller of the Currency had advised

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that he had received a request for a report on the bill and that he would like an opportunity to discuss the matter with members of the Board.

In connection with the above matter, Mr. Ransom called attention to a letter received from the Chairman of the Senate Committee on Banking and Currency this morning requesting a report on an amendment to the trust indenture bill introduced on February 23, 1939, on behalf of Senators Herring and Townsend and referred to the Committee on Banking and Currency. Mr. Wyatt read a draft of the last paragraph of the proposed report on the bill which had been revised to include comments on the amendment.

At the conclusion of the discussion, it was agreed unanimously that the members of the Board would give to Mr. Wyatt not later than this afternoon any suggestions that they might have to make with respect to changes in the draft of report on the trust indenture bill, that Mr. Wyatt would revise the report as promptly as possible on the basis of these suggestions and the discussion at this meeting, that Mr. Ransom would discuss with Commissioner Eicher and the Comptroller of the Currency separately tomorrow morning the nature of the report proposed to be made by the Board, and that the revised report would be sent to the Chairman of the Senate Committee on Banking and Currency not later than the morning of March 1, 1939.

In accordance with the decision reached at the meeting on

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February 24, 1939, copies of the draft of the annual report of the Federal Reserve Bank of New York to its stockholders for the year 1938 had been furnished to the members of the Board with the understanding that the draft would be considered at this meeting. Chairman Eccles stated that President Harrison of the Federal Reserve Bank of New York had advised that he had discussed the draft of the report with Mr. Goldenweiser when the latter was in New York last week and had stated to Mr. Goldenweiser that the draft as submitted was a preliminary draft which President Harrison had read only hastily and that a number of substantial changes in addition to those mentioned by Mr. Goldenweiser were being made in the report.

The question raised in Mr. Goldenweiser's memorandum of February 23 whether the New York Bank should continue to issue a report dealing with national problems was discussed in the light of the Board's telegram of January 6, 1937, to all Federal Reserve banks with respect to the issuance of annual reports by the banks.

At 1:10 p.m. the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the opening of the morning session except that Messrs. Paulger, Leonard, Vest, Wingfield, Williams and Brown were not present.

There followed a discussion of the present practices of the Federal Reserve banks in issuing annual reports and of the reasons

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given by the Federal Reserve Bank of New York for desiring to issue a full report covering the developments during the year in the monetary and banking field. It was pointed out that prior to 1935 the report of the Federal Reserve Bank of New York, as well as the report of each of the other Federal Reserve banks, was addressed to the Board of Governors and signed by the Chairman and Federal Reserve Agent of the bank and that as a result of the Board's telegram of January 6, 1937, the other Federal Reserve banks had made routine reports of operations to their stockholders, but that the Federal Reserve Bank of New York had converted the report which it previously made to the Board of Governors into a report to its stockholders in which it continued to discuss matters of policy and national interest, its annual reports for the years 1936 and 1937 having been in this form.

At the conclusion of the discussion, upon motion by Mr. Ransom, Messrs. Davis, Szymczak and Goldenweiser were requested to discuss the revised draft of the report of the New York Bank with President Harrison while he is in Washington during this week and, if they have no objection to the report in its final form, to advise President Harrison that there would be no objection on the part of the Board to its publication, or, if there are questions still remaining which they feel should be considered by the Board, to refer the matter to the Board. In taking this action it was understood that any member of the Board of Governors

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would be free to present to Messrs. Davis and Szymczak any suggestions that they may have to make with respect to the draft of report.

In accordance with the action taken at the meeting of the Board on February 17, 1939, there had been distributed to the members of the Board a revision of the memorandum prepared by Messrs. Wyatt and Goldenweiser relating to proposals to maintain prices at fixed levels.

At the conclusion of a discussion, upon motion by Mr. Szymczak, the draft of statement was referred to Messrs. Davis and Eccles for further consideration in consultation with senior members of the staff, with the understanding that when approved by Messrs. Davis and Eccles the statement would be sent to the Senate Committee on Agriculture and Forestry in response to a request received from that committee for a report on S. 1057, a bill for the regulation and stabilization of agricultural and commodity prices through the regulation and stabilization of the value of the dollar. It was also understood that the statement would be used as a basis for replies to other communications received by the Board relating to price stabilization.

At this point Chairman Eccles left the meeting and upon his return stated that Secretary of the Treasury Morgenthau had just advised him over the telephone that at his press conference at 4:00 p. m. today he proposed to state that the Treasury would not ask for

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any new money in connection with the March 15 financing but would offer new securities in exchange for Treasury notes maturing on June 15, 1939. This program, Chairman Eccles said, meant that there would be no reduction in the amount of Treasury bills now outstanding.

Under date of February 21, 1939, there was sent to each member of the Board a memorandum covering the matters discussed at the meeting of Chairmen of Federal Reserve Banks held in the Board's offices in Washington on January 30, 1939, and the memorandum was placed on the docket for consideration at this meeting.

The memorandum was referred to Messrs. Davis and Szymczak for recommendation to the Board as to action to be taken by the Board in connection therewith.

Reference was also made to the recommendations submitted by the Federal Advisory Council at the meeting with the Board on February 14, 1939, and question was raised as to what further action should be taken by the Board on the recommendations.

Upon motion by Mr. Davis, Messrs. McKee and Draper were requested to consider the recommendations and to suggest to the Board what further action should be taken by it thereon.

There was then presented a memorandum dated January 26, 1939, from Mr. Wyatt relating to the history of Section 8 of the Clayton Act and a suggested revision of that section. The memorandum had

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been circulated among the members of the Board preparatory to consideration at a meeting of the Board of the question what, if any, further communication should be sent by the Board to Congress with respect to the amendment of the Clayton Act. During the ensuing discussion reference was made to the statement made by Mr. Hanes at the meeting of the Board with the Federal Advisory Council on February 14, 1939, that the legislative committee of the American Bankers Association was preparing a draft of an amendment to the Clayton Act which would authorize the continuation of existing interlocking directorates affecting insured banks but would prohibit the creation of additional interlocking relationships. All of the members of the Board indicated that they would have no objection to this solution of the matter.

At the conclusion of the discussion Mr. Wyatt's memorandum was referred to Messrs. McKee and Draper for further consideration and recommendation to the Board.

In accordance with the action taken at the meeting of the Board on January 10, 1939, the memorandum which was prepared by Mr. Piser under date of December 9, 1938, on the subject of the Government security market and the system open market account was brought up for consideration at this meeting and it was agreed that it should be made the special order of business at an early meeting of the Board at which all members are present.

Upon recommendation of the Personnel Committee, the Committee was authorized to

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tender to Mr. Alfred H. Williams, Dean of the Wharton School of Finance, University of Pennsylvania, Philadelphia, Pennsylvania, appointment as a Class C director of the Federal Reserve Bank of Philadelphia for the unexpired portion of the three-year term ending December 31, 1941.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on February 24, 1939, were approved unanimously.

Letter dated February 25, 1939, to the board of directors of the "First-Peoples State Bank", Traverse City, Michigan, stating that, subject to conditions of membership numbered 1 to 4 and 6 contained in the Board's Regulation H and the following additional conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.

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- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$5,000, as shown in the report of examination of such bank as of January 30, 1939, made by an examiner for the Federal Reserve Bank of Chicago."

The letter also contained the following special comments:

"The report of examination for membership contains numerous criticisms of the operations and supervision of the trust department which the examiner reports were fully discussed with the officers and directors of the bank. Acceptance of trust business entails serious responsibilities, and if the First-Peoples State Bank becomes a member bank, it will be expected to take the necessary steps to give the Trust Department proper attention and bring the trust activities into conformity with approved practices. Attention is invited to the fact that should the bank at any time in the future desire to exercise fiduciary powers in addition to those of executor, administrator, guardian and testamentary trustee, which it is now authorized to exercise, permission to do so should be obtained from the Board in accordance with the provisions of condition of membership numbered 1."

Approved unanimously, together with a letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'First-Peoples State Bank', Traverse City, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your

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"files and the other of which you are requested to forward to the Commissioner of the Banking Department for the State of Michigan for his information.

"The securities investment schedule in the report shows that certain securities are carried by the bank in excess of their call prices. While the excess carrying value is not large it is suggested that you request the bank to reduce the carrying values to call price in accordance with the standards regarding amortization of premium set forth in the Comptroller's regulation regarding the purchase of investment securities.

"The examiner reports that while the applicant has been authorized to act only in certain fiduciary capacities, namely, as executor, administrator, guardian, and testamentary trustee, it was also acting, apparently without proper authorization, in three cases as trustee under agreement and in one case as depositary for a bondholders committee. It is understood, however, that these accounts were taken over from the predecessor national bank some years ago and that the State Banking Department apparently has offered no objection to the bank handling these accounts. It is assumed that you have satisfied yourself that the bank has incurred no material liabilities by reason of the exercise of such unauthorized powers and it is suggested that, if you have not already done so, the matter be discussed with the bank and the State Banking Department with a view to regularizing the situation as soon as practicable."

Letter to the Federal Deposit Insurance Corporation, reading as follows:

"Pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, the Board of Governors of the Federal Reserve System hereby certifies that the 'Elmira Bank & Trust Company', Elmira, New York, became a member of the Federal Reserve System on February 25, 1939, and is now a member of the System. The Board of Governors of the Federal Reserve System further hereby certifies that, in connection with the admission of such bank to membership in the Federal Reserve System, consideration was given to the following factors enumerated

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"in subsection (g) of section 12B of the Federal Reserve Act:

1. The financial history and condition of the bank,
2. The adequacy of its capital structure,
3. Its future earnings prospects,
4. The general character of its management,
5. The convenience and needs of the community to be served by the bank, and
6. Whether or not its corporate powers are consistent with the purpose of section 12B of the Federal Reserve Act."

Approved unanimously.

Telegram to Mr. Merritt, Federal Reserve Agent at the Federal Reserve Bank of Dallas, stating that, subject to the conditions set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the "Republic National Bank of Dallas", Dallas, Texas, entitling such organization to vote the stock which it owns or controls of "The Liberty State Bank", Dallas, Texas, at all meetings of shareholders of such bank. The conditions contained in the telegram upon which the permit was authorized were as follows:

- "1. Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter X-9385, except that (a) paragraph numbered 7 shall be modified in the manner stated in Board's letter X-9540, (b) paragraphs numbered 1, 2, 4, and 5 shall be omitted and remaining numbered paragraphs appropriately renumbered, (c) the following shall be inserted as an additional numbered paragraph:

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- "4. That the granting of a general voting permit to the undersigned does not constitute approval by the Board of Governors of the Federal Reserve System of retention of bank stocks by the undersigned and the retention of such stocks shall be subject to any requirements made by the Comptroller of the Currency in his supervision of the undersigned as though such permit were not granted.',
- and (d) all lettered paragraphs and introductory sentence immediately preceding them shall be omitted.
- "2. Prior to or simultaneously with the issuance of general voting permit authorized herein, The Liberty State Bank shall be admitted to membership in the Federal Reserve System."

Approved unanimously.

Letter dated February 25, 1939, to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of January 31, 1939, requesting a ruling with respect to the holding company affiliate status of American Investment Corporation, Ogden, Utah.

"The Board understands that American Investment Corporation owns or controls 1319.21 of the 3000 outstanding shares of stock of Commercial Security Bank, Ogden, Utah, and that the shares owned or controlled by such corporation were not voted at the election of directors of the bank held on January 10, 1939. On the basis of these facts, the Board is of the opinion that American Investment Corporation is not now a holding company affiliate of Commercial Security Bank."

Approved unanimously.

Letter to Mr. Edward C. Romfh, President, The First National

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Bank of Miami, Miami, Florida, reading as follows:

"Reference is made to your letter of February 16, 1939, in regard to the condition of currency received by your bank from the Jacksonville Branch of the Federal Reserve Bank of Atlanta.

"As you know, silver certificates are issued in the \$1 and \$5 denominations and to a limited extent in the \$10 denomination, and United States notes in the \$2 and \$5 denominations. All Federal Reserve banks sort such notes received from banks and the public according to a standard of fitness prescribed by the United States Treasury, and the same standard of fitness has been adopted by the Federal Reserve banks in respect to Federal Reserve notes. Insofar as Treasury currency is concerned, the Federal Reserve banks are not permitted to return to the Treasury for redemption currency that is fit for further circulation and, consequently, they must pay out all currency received which conforms to the Treasury's standard of fitness. It would, of course, add tremendously to the printing and shipping costs on currency both for the Treasury and the Federal Reserve banks, if fit currency received by the Federal Reserve banks were not paid out by them.

"In paying out new and fit currency, the Federal Reserve banks endeavor to comply so far as practicable with requests of member banks. If, however, currency is to be used for circulation purposes until, on the basis of standards set up by the Treasury, it is no longer fit for circulation, the Federal Reserve banks and branches must utilize fit currency along with new currency, in equitable proportions, in filling currency requests of member banks. In fact the records show that the banks in Miami have been receiving more than their proportionate share of new currency.

"In the circumstances, it does not appear that the Federal Reserve Bank of Atlanta and its Jacksonville Branch would be justified in furnishing the banks in Miami with a larger proportion of new currency."

Approved unanimously.

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Thereupon the meeting adjourned.

Cherster Morier
Secretary.

Approved:

W. C. Cullen
Chairman.