

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 3, 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. Wingfield, Assistant General Counsel
 Mr. Brown, Special Assistant, Division of Security Loans

There were presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Messrs. Kimball, Post, Hays, Dillard and Stewart, Secretaries of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Chicago and St. Louis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Hale, 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 February 28, by the Federal Reserve

3/3/39

-2-

Banks of New York, Cleveland, Chicago, Kansas City and San Francisco on March 2, and by the Federal Reserve Banks of Boston, Philadelphia and St. Louis today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Prior to this meeting there had been distributed among the members of the Board drafts of the report prepared by Mr. Wingfield, in response to the request made at the meeting of the Board on February 28, relating to the trust indenture bill. Copies of an alternative draft of report prepared by Mr. Wyatt following the meeting on February 28 also had been sent to the members of the Board. Both of these drafts were brought up for consideration and Mr. Ransom referred to other drafts which had been prepared by him and Mr. Morrill for the purpose of attempting to state in a brief report the essential points covered by earlier drafts. Mr. Ransom also referred to various statements contained in the printed report of recent hearings held by the Senate Banking and Currency Committee on the bill. At the conclusion of a discussion, Mr. Morrill was requested to retire from the meeting and consolidate the important points contained in the drafts of reports into a draft which would be as short as possible. Mr. Morrill withdrew from the meeting for this purpose and upon his return presented a new draft of report which was read and discussed and various suggestions for changes therein were made.

3/3/39

-3-

At 1:20 p.m. the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the beginning of the morning session except that Messrs. Smead, Paulger and Brown were not present.

The consideration of the draft of report of the trust indenture bill was resumed and after reviewing a number of suggested changes in the draft, the report was approved in the following form with the understanding that it would be sent by mail tomorrow to the Chairman of the Banking and Currency Committee and that tomorrow Mr. Morrill would advise the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, Mr. Burke, Assistant Director of the Reorganization Division of the Securities and Exchange Commission, and Mr. Sherbondy of the legal division of the Treasury that the report had been mailed and that he would be glad to send them copies of the report if they so desired:

"This is in response to your request for an expression of opinion of the Board of Governors of the Federal Reserve System as to the merits of S. 477, on the basis of the Confidential Committee Print of February 21, 1939.

"The Board recognizes that there have existed in the past abuses in connection with corporate trust indentures which this bill is designed to remedy, and that the interest of investors would be better served if the responsibilities of corporate trustees were more clearly defined, if they were required to exercise a greater degree of diligence than has been exercised at times in the past, and if they were not permitted to occupy positions conflicting with their fiduciary responsibility.

"In attempting to provide a remedy, however, the bill sets up certain administrative requirements and imposes upon the corporate trustee certain additional obligations which might increase the difficulties and expense of obtaining needed capital for business enterprises. It might also cause corporate trustees in times of stress to take

3/3/39

-4-

"action resulting in liquidations that would be unnecessary or undesirable from the standpoint of the public interest.

"The question may well be considered whether there is pressing need at this time for additional legislation of this character. Congress has vested in the Government broad powers designed to protect investors. It is important that the protective results hoped for from this additional legislation be weighed against its restrictive effects upon the capital markets. The decision should be heavily influenced by consideration of the course that will be most helpful at this stage of economic recovery. The Board has weighed the problem, and is of the opinion that action should be postponed until further study can be made by Congress of the financial field of which this bill touches only a part.

"If, however, the Committee is satisfied that there does exist at this time a need for some additional legislative action in order to prevent a recurrence of the abuses in this field which occurred under indentures drawn prior to the enactment of the Security Act of 1933, the Board wishes to raise the question whether the bill could not be made less of a deterrent to capital financing, and at the same time be improved materially from the standpoint of its effect upon the issuance and servicing of trust indentures, by writing into the law itself, in simpler terms, the standards of conduct which ought to be observed by every corporate trustee and by eliminating any administrative procedure which is not already necessary in connection with applications for registration under the Securities Act.

"In this connection, it is the Board's view that the amendment proposed by Senators Herring and Townsend, regarding which you have requested a report, would not accomplish the objectives of legislation of this character, because it does not contain an adequate statement of the standards to be observed by corporate trustees and would not apply to indentures under which State banks and trust companies act as trustees. With the exception of the matters referred to in the Board's letter of February 16, 1939, the Board wishes to make it clear that it believes that, if any additional administrative authority is considered necessary by Congress to carry out such legislation, it should be conferred on the Securities and Exchange Commission."

3/3/39

-5-

Mr. McKee referred to the informal statement made to members of the Board by President Harrison of the Federal Reserve Bank of New York while he was in Washington on March 1, 1939, regarding the discussions which he had had with representatives of the Treasury and Oswaldo Aranha, Minister of Foreign Relations of Brazil and other members of the Brazilian Mission now in the United States, with respect to the desirability of establishing a central bank in Brazil. Mr. McKee recommended that the Board ask Mr. Harrison for a written report of his participation, as well as the participation of any other members of the official staff of the Federal Reserve Bank of New York in discussions.

Chairman Eccles stated that the Secretary of the Treasury had advised him of the pending discussions of this matter, and that he (Secretary Morgenthau) had asked Mr. Harrison to send Mr. Knoke, Vice President of the Federal Reserve Bank of New York, to Washington to participate in consideration of the matter with Mr. Lochhead, Technical Assistant to the Secretary of the Treasury, and that the Board appoint some one from its staff to get in touch with Mr. Lochhead concerning it. Chairman Eccles added that later Secretary Morgenthau called Mr. Harrison and asked him to come to Washington to participate in the discussions with representatives of the Brazilian Mission, which Mr. Harrison did on two occasions recently, and that the later discussion developed into a consideration of the

3/3/39

-6-

question of the extension of credit to Brazil.

Mr. Szymczak stated that, in a subsequent conversation with him, Mr. Harrison had stated that he proposed to prepare a written statement of the matter for the records of the Federal Reserve Bank of New York.

It was agreed that Chairman Eccles would call Mr. Harrison on the telephone and ask him to send to the Board a full report of the participations of officers of the Federal Reserve Bank of New York in the discussions.

Chairman Eccles stated that under date of March 1, 1939, a letter was received from the Chairman of the Senate Banking and Currency Committee requesting an expression of the Board's opinion on Senate Resolution 82, a joint resolution providing for the appointment of a special joint committee to investigate the United States gold policy.

After a discussion, Mr. Goldenweiser was requested to draft a report on the resolution for consideration by the Board.

Mr. Ransom stated that, in accordance with the informal understanding which he had had with members of the Board, he had presented to the Research Council of the American Bankers Association for study the problem confronting the Board with respect to the absorption by member banks of exchange charges as an indirect payment of interest, that the Council had given careful consideration to the

3/3/39

-7-

matter and was fully aware of the problem involved, and that counsel of the Association had suggested to Mr. Ransom that he attend the meeting of the Council at Hot Springs, Virginia, in April, for the purpose of reviewing with it in executive session the history of the problem as an aid to the Council in determining whether it can render any assistance in its solution. The other members of the Board concurred in the opinion that Mr. Ransom should accept if the Association extends an invitation to attend the Council meeting.

Mr. Ransom also stated that under date of February 2, 1939, an editorial had appeared in the New York Journal of Commerce on the subject of examination of banks by Federal authorities, that he had addressed a letter to the editor of the paper pointing out the fact that the editorial was based on a misunderstanding of the facts and that the editor had requested permission to publish the letter. The editorial and Mr. Ransom's letter, together with the request for permission to publish the letter, had been circulated among the members of the Board. All of the members of the Board indicated that they felt that Mr. Ransom should give permission for the publication of his letter.

At the suggestion of Mr. Ransom, Mr. Wyatt stated that two or three days ago he learned for the first time that members of the staff of the Securities and Exchange Commission have under preparation for the Monopoly Investigating Committee of the Senate a memorandum, part of which relates to the recommendations contained in

3/3/39

-8-

the report of the Pujo Committee which were subsequently enacted into law, and that it would appear from this that the Monopoly Committee is giving some consideration to including the banking field in its investigation.

In connection with this matter, Mr. Eccles referred to a telephone conversation which he had had with Mr. Douglas of the Securities and Exchange Commission recently concerning work that members of the staff of the Commission were doing for the Monopoly Committee which indicated the intention of the Committee to make investigations in the banking field.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Parry and Wingfield 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 March 2, 1939, were approved unanimously.

Memorandum dated February 27, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, a leave of absence without pay for a period not exceeding sixty days be granted to Mrs. Ruth H. Reehling, a clerk in the Division, beginning March 1, 1939.

Approved unanimously.

3/3/39

-9-

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

"Reference is made to your letter of February 23, enclosing a proof copy of a pamphlet showing some of the major operations and expenses of the Federal Reserve Bank of Chicago. It is stated in your letter that you expect to distribute the pamphlet principally by giving it to visitors who are shown through the Bank from time to time and that unless there is some objection on the part of the Board you will proceed with the printing of it.

"It is noted that figures are contained in the pamphlet by which the unit cost of handling certain items may be readily computed by dividing the expense by the number of items handled. The annual stockholders' reports issued by two other Reserve banks now contain similar information, thus enabling one to make a comparison of the unit costs at three Reserve banks.

"The Board has some doubt as to the advisability of a number of Federal Reserve banks publishing such information unless we are prepared to publish similar information in a uniform manner for all Federal Reserve banks. Accordingly, it has requested the Chairman of the Presidents' Conference to place this topic on the program of the next Presidents' Conference, and a copy of the Board's letter to President Harrison is enclosed for your information.

"Pending the action taken by the Presidents' Conference on this matter, it is suggested that the printing of the proposed pamphlet in final form with this information be deferred."

Approved unanimously, together
with the following letter to Mr. Harrison,
Chairman of the Presidents' Conference:

"As you know, it is the present practice of each Federal Reserve bank to publish annually a report to stockholders. While the reports are not entirely uniform, most of them include a statement of condition as of the end of the year, a summary statement of earnings and expenses during the year, and a list of the officers

3/3/39

-10-

"and directors of the bank. The reports issued by two of the Reserve banks, however, contain statements which show the cost of conducting the operations of the bank during the year, by functions, and the number of items handled in each function. Another Federal Reserve Bank has in mind publishing a pamphlet containing similar information which it proposes to distribute principally by giving it to visitors that are shown through the bank from time to time.

"The publication of figures of this nature enables one readily to compute certain unit costs and, since the figures are published by more than one Reserve bank, to make a comparison of unit costs between banks. The Board has some doubt as to whether it is advisable to publish the information in a way permitting such comparisons to be made unless we are prepared to publish similar information in a uniform manner for all Federal Reserve banks. Accordingly, it will be appreciated if you will place this topic on the program of the forthcoming Presidents' Conference.

"A copy of this letter is being sent to each Federal Reserve bank for its information."

Thereupon the meeting adjourned.

Orster Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.