

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 28, 1939, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
 Mr. Ransom, Vice Chairman
 Mr. McKee
 Mr. Davis
 Mr. Draper

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. Goldenweiser, Director of the Division of Research and Statistics
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Wingfield, Assistant General Counsel

Mr. McKee presented a draft of letter to Mr. Parker, President of the Federal Reserve Bank of Atlanta, which was discussed and approved unanimously in the following amended form:

"This is in reply to your letter of March 20, 1939, submitting for the Board's consideration the question of whether a proposed expansion of activities by the Trust Company of Georgia, Atlanta, Georgia, would come under the provisions of the following condition of membership:

'3. That except with the approval of the Federal Reserve Board there shall be no change in the general character of the assets of or broadening in the functions now exercised by you, such as will tend to affect materially the standard now maintained and required as a condition of membership.'

"The type of business which the bank proposes to undertake is described in your letter as follows:

'The bank will purchase outright from cotton mills and other manufacturers receivables representing the sale of merchandise.

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"For example, the bank would acquire from a cotton manufacturer at the time of the shipment of merchandise the account growing out of the sale of such merchandise. The bank would notify the purchaser of the assignment and would, of course, as assignee of the manufacturer, be entitled to receive that amount due according to the terms of the sale. Naturally, it would purchase only accounts deemed to be satisfactory. The contract between the manufacturer and the bank would contain provisions for the indemnification of the bank against loss growing out of disputed claims, unsatisfactory merchandise, etc. The accounts themselves would be bought from the manufacturer upon a non-recourse basis as regards ordinary and usual credit risks."

"According to your letter, the Superintendent of Banks of Georgia has given his approval of the proposed business and counsel for the trust company is of the opinion that under its charter and the law of Georgia the bank has the right to engage in the proposed business. You state that you are of the opinion that the purchase of the receivables under the plan outlined would not constitute a change in the character contemplated by the condition of membership and see no reason to interpose any objection to the bank's undertaking the business.

"It would seem that the question of whether the proposed transaction will constitute a change of the character contemplated in condition of membership numbered 3 cannot now definitely be determined but will depend upon future developments. Certainly, however, the proposed transactions need not, and if properly conducted, should not, constitute such a change. Therefore, in accordance with your recommendation, the Board will interpose no objection under the condition of membership to the bank's undertaking the proposed type of business. This position is taken, however, with the understanding that the Board reserves the right to reconsider the matter in the light of future developments."

Upon motion by Mr. McKee, Messrs. Szymczak and Davis were appointed to

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serve with the Chairman as members of the Personnel Committee of the Board of Governors for the year commencing April 1, 1939, and ending March 31, 1940.

Mr. Davis stated that replies had been received from all of the Federal Reserve banks to the Board's letter of October 14, 1938, requesting the banks' comments and suggestions on the booklet prepared by Mr. Hammond of the Division of Bank Operations, containing material descriptive of the Federal Reserve System, that the booklet had been revised in the light of these comments and suggestions under the title "The Federal Reserve System, Its Purposes, Functions and Organization" and copies had been sent to members of the Board and its staff, and that he (Mr. Davis) desired to recommend that the Board authorize the printing of the booklet and its distribution in such manner as might be determined by the Board.

After a discussion of the style of the booklet and the charts and illustrations to be included therein, Mr. McKee moved that the Board approve the publication of the booklet, with such further editorial changes as may be found to be necessary, and that the details of style, printing, and distribution be referred to Mr. Davis with power to act.

Carried unanimously, with the understanding that the cost of publication and distribution would be charged to the item Printing and Binding in the General Budget for 1939, and that such item would be increased by that amount.

There was then presented a draft of letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

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"Careful consideration has been given to your letter of March 7, 1939, and inclosures, regarding the Clayton Act status of Mr. Robert Winthrop who is a partner in the firm of Robert Winthrop & Co. and a director of City Bank Farmers Trust Company, New York, New York.

"The question is whether the trust company is 'engaged in a class or classes of business' in which the firm is engaged, within the meaning of section 3(d)(4) of Regulation L, and in this connection it appears that there are only three items in the statement of the trust company to which this phrase might be applicable: the deposit of one corporation, against which no checks are drawn; 44 deposits of individuals which 'are handled for the Trust Company by The National City Bank of New York'; and certain loans on stock or bond collateral, all but one of which are loans to protective committees for which the trust company is acting as depository, the loans being secured by the securities so deposited.

"The question presented is similar to that which has been considered by the Board in a number of cases where an individual was serving a trust company engaged almost entirely in trust business, and a commercial bank. In each of those cases it appeared that both institutions were engaged to a certain extent in the same classes of business, and the Board found that the corresponding provision of the statute (paragraph (6)) was not applicable.

"You are familiar with the experience of the Board in applying the indefinite standards which were contained in this statute before it was rewritten by the Banking Act of 1935. Those standards were found to be unworkable and extremely unsatisfactory not only from the standpoint of the Board but more particularly from the standpoint of the directors, officers and banks affected, since no one could know whether his services were legal until he had furnished full information and submitted the matter to the discretion of the Board in Washington. It was for this reason that the statute was completely revised in 1935 so as to prescribe a set of definite rules.

"If the Board should decide that the small amount of business which exists in the present case did not render the statute inapplicable, it would be necessary in other cases to decide whether a slightly larger amount should produce a different result. The issue then would not be whether the two institutions were engaged in any of the same classes of business, but whether they were engaged

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"in the same classes of business to such an extent that the interlocking relationships would, in the opinion of the Board, produce a situation which would be in conflict with one or more of the objectives of the statute. These objectives, moreover, are themselves indefinite, since section 8, as revised in 1935, does not even contain the references to 'substantial competition' and the 'public interest' which it formerly contained. Such a decision, therefore, by reintroducing an indefinite standard, would carry with it all the disadvantages of the former procedure.

"The standard prescribed in paragraph (6) is definite, and the Board's experience in administering this statute has shown beyond any doubt that a set of definite rules produce far fewer unsatisfactory results than one which requires a long-range appraisal of the facts in each case. No rules of general application can produce uniformly perfect results, and the Board believes that the directors and officers of member banks will fare much better under rules which obviate the inconvenience and uncertainty which were inherent in the former procedure.

"For these reasons the Board believes, consistently with its previous rulings in similar cases, that Mr. Winthrop's relationships are not excepted from the prohibitions of the statute."

Approved unanimously.

Mr. Ransom referred to a memorandum prepared by Mr. Wingfield, Assistant General Counsel, under date of March 18, 1939, in response to the action taken at the meeting of the Board on March 17, 1939, relating to possible legislation with respect to investment trusts. The memorandum, which presented some of the problems involved in the suggested legislation now being drafted by members of the staff of the Securities and Exchange Commission, had been circulated among the members of the Board prior to this meeting. Mr. Ransom stated that he had suggested that the matter be discussed further by the Board so that in the event any of the members had any suggestions to make they

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could be offered before the legislation began to take definite form, and that he felt this procedure was more desirable than to delay an expression of opinion until the legislation became more or less crystallized.

It was agreed unanimously that Mr. Wingfield, in consultation with Mr. Ransom, should keep in touch with the members of the staff of the Securities and Exchange Commission with respect to the progress made in drafting the legislation, with a view to giving any possible assistance in meeting problems that may arise and keeping the Board informed of any developments which it is felt should be brought to the Board's attention.

During a discussion of the above matter Mr. Leonard, Assistant Chief of the Division of Examinations, entered the room and at the conclusion of the discussion Mr. Wingfield withdrew from the meeting.

Prior to this meeting there had been circulated among the members of the Board a letter dated March 11, 1939, from President Harrison of the Federal Reserve Bank of New York to which was attached a memorandum relating to participations of officers of the Federal Reserve Bank of New York in discussions with members of the Brazilian Mission who were in the United States in February with respect to the creation of a central bank in Brazil. During the discussion of Mr. Harrison's report it was pointed out that his discussions with representatives of the Treasury began as early as February 12, 1939, and that it was not until March 1, 1939, that he advised the Board

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of the discussions.

In connection with the above matter reference was made to the fact that no report had been made to the Board by Mr. Harrison with respect to his discussions with the State Department, the Treasury, and the Bank of England relative to the handling of Czechoslovakian funds after March 15, 1939, other than the informal statement made by him at the meeting of the Federal Open Market Committee on March 20, 1939. The two instances referred to were considered in the light of the statement of procedure with respect to foreign relationships of Federal Reserve banks sent by the Board to the Federal Reserve banks on October 30, 1936, as well as in the light of the Board's letter of January 24, 1938, relating to the disposition of matters which require consultation with another department or agency of the Government.

At the conclusion of a discussion, Mr. Ransom was requested to review the entire matter of procedure with respect to foreign relationships of Federal Reserve banks in the light of the provisions of Section 14(g) of the Federal Reserve Act and the Board's Regulation N, Relations with Foreign Banks and Bankers, and to submit a recommendation to the Board as to what action, if any, should be taken by the Board in the premises.

Reference was made to the action taken at the meeting of the Board on February 24, 1939, in authorizing the publication in the Federal Reserve Bulletin of the first article resulting from the Works

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Progress Administration closed bank study conducted under the supervision of members of the Division of Research and Statistics of the Board of Governors, it being understood that the Board would consider the publication of subsequent articles as they were submitted by the Division. Mr. Davis stated that a second article entitled "Behaviors of Deposits Prior to Suspension in a Selected Group of Banks -- Analysis by Type of Deposit Holder" had been prepared for publication in the next issue of the Federal Reserve Bulletin, that copies of the article had been sent to all of the members of the Board, and that it was his recommendation that its publication in the April Federal Reserve Bulletin be approved and that subsequent articles be sent to the members of the Board as they are prepared and, in the absence of objection by a member of the Board, be published in the Federal Reserve Bulletin.

Mr. Davis' recommendation was approved, Mr. McKee voting "no", it being understood that his vote applied not only to the proposed publication of the article in the April Bulletin, but also to the publication of the subsequent articles referred to by Mr. Davis.

Mr. McKee referred to a letter received by the Board under date of February 21, 1939, from Deputy Comptroller of the Currency Upham with which he inclosed a copy of a letter received by the Comptroller of the Currency from a national bank presenting the question whether a ruling of the Comptroller of the Currency to the effect that a bank might exchange defaulted bonds of the same debtor, if the bonds acquired are more sound than those disposed of, could be extended

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to permit the exchange of defaulted and other ineligible bonds of one railroad for ineligible bonds of another railroad which have better security or would otherwise improve the position of the bank, provided the volume of the transaction expressed in money was limited to the reinvestment of the proceeds derived from the sale in question. Mr. Upham's letter stated that the Comptroller of the Currency would like to have the benefit of the views of the Board and its staff on the suggestion contained in the letter from the national bank. Mr. Leonard said that consideration had been given to the matter by the Division of Examinations and it was felt that, if proper safeguards were set up, the ruling could be liberalized as suggested for the reasons among others that (1) it might enable a bank to improve its position, (2) the effect of giving the bank greater freedom to manage its own portfolio would be helpful, and (3) it would be helpful to supervisory authorities in obtaining desirable corrections in criticized assets held by individual banks.

After discussion, during which it was indicated that the members of the Board would favor the proposed liberalization of the ruling with appropriate safeguards, it was agreed unanimously that Mr. Draper should discuss the matter informally with the Comptroller of the Currency.

At the request of Mr. McKee, Mr. Leonard presented a draft of letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

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"Reference is made to your letter of March 13, 1939, submitting the request of 'The Ohio-Merchants Trust Company', Massillon, Ohio, for permission, under the provisions of condition of membership numbered eight, to acquire additional certificates of equitable ownership in the Ohio-Merchants Building, through purchase or in satisfaction of loans from time to time, provided the par value of certificates held by the bank shall not exceed \$200,000 and such certificates shall not be carried on the books of the bank at a value exceeding fifty per cent of par.

"It is understood that the bank now holds certificates representing 4,024 participation units, having a par value of \$40,240 and carried on its books at \$20,120, which were acquired in connection with the reorganization of the bank effected in 1932 and, subsequently, in connection with debts previously contracted, and that the bank anticipates the possibility of acquiring approximately 4,000 more participation units in connection with the settlement of a loan to the local Y.M.C.A., which certificate will also be placed upon the books of the bank at fifty per cent of par.

"The Board will interpose no objection to the acquisition of participation units by the member bank in satisfaction of debts previously contracted in good faith, with the understanding, of course, that such certificates will be carried on the books of the bank at a reasonable valuation, but does not feel that the bank should acquire such certificates by direct purchase.

"It is felt that a substantial minority interest in a bank building is not, generally speaking, a desirable bank asset and it does not appear that the eventual acquisition of full ownership would be desirable in view of the present capital and asset position of the member bank. It appears, further, that the acquisition of a substantial interest through purchase for cash, as proposed, would place the bank in an awkward and, perhaps, embarrassing position in negotiations regarding rental terms. This is especially true in view of the fact that the certificates were issued in lieu of waived deposits in connection with the reorganization of the bank."

The situation outlined in the letter was discussed and the letter was approved by unanimous vote.

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Chairman Eccles read a news item which had just been received over the ticker to the effect that the Senate Committee on Banking and Currency had reported out a bill to amend Section 22(g) of the Federal Reserve Act to extend for three years the time within which loans made to executive officers of member banks prior to June 16, 1933, could be renewed or extended. In this connection it was stated that under date of March 22, 1939, a routine request was received from the Chairman of the Senate Committee on Banking and Currency for a report on the bill as introduced by Senator Glass which would have extended indefinitely under certain conditions the time within which such loans could be renewed or extended.

It was agreed unanimously that, in view of the fact that the bill had already been reported by the Committee in an amended form, no reply to the request received from the Chairman of the Senate Committee on Banking and Currency was called for.

Consideration was given to a letter received under date of March 24, 1939, by Mr. Goldenweiser from Senator Pittman, Chairman of the Senate Special Silver Committee, inclosing a pamphlet containing tables and graphs prepared by Mr. Trent, economist for the committee, with respect to the silver question being studied by the committee, and requesting that Mr. Goldenweiser discuss the tables and graphs in a letter to the committee and that he prepare and submit independent

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charts depicting the purchasing power of the silver in the dollar, along with wholesale prices of all commodities, and by groups of commodities; also the purchasing power of silver in the dollar in comparison with factory employment, by industries and payrolls in the various divisions. In submitting the letter to the Board Mr. Goldenweiser stated that he had acknowledged the letter from Senator Pittman advising that he would bring the matter to the attention of the Board and, under its direction, would give it careful study with a view to preparing a reply. Senator Pittman's letter and inclosure had been circulated among the members of the Board prior to this meeting.

During a discussion of the nature of the reply that might be made, Mr. Goldenweiser stated that he felt the better procedure would be the preparation of a statement which would discuss the silver question generally instead of attempting to answer the numerous questions contained in the pamphlet.

Mr. Goldenweiser was requested to study the matter and to prepare, for consideration by the Board, a draft of reply to Senator Pittman's letter.

Mr. Ransom presented a memorandum addressed to him under date of March 28, 1939, by Mr. Wyatt submitting a routine request received under date of March 24 from the Chairman of the Senate Committee on Banking and Currency for a report on S. 1917, a bill introduced by

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Senator Frazier "providing for Congress to coin and issue money and regulate the value thereof by establishing the Bank of the United States, owned, operated, and controlled by the Government of the United States; setting forth the scope and manner of the bank's operations; creating a board of control and defining the powers and duties of the board and other persons charged with the bank's management; and for other purposes." Mr. Wyatt's memorandum recommended that in accordance with the Board's established procedure no report be made on the bill unless the Chairman of the Senate Committee on Banking and Currency specifically requests it.

Mr. Wyatt's recommendation was approved unanimously.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Dreibelbis, and Leonard 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 27, 1939, were approved unanimously.

Letter to Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"This will acknowledge receipt of your letter of March 23, 1939, advising that as no suitable replacement

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"for Mr. Matteson has as yet been found, the Board of Directors of your bank has decided that it is desirable and in the best interests of the bank to continue him in active service until June 30, 1939."

Approved unanimously.

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

"In accordance with the request contained in your letter of March 22, the Board approves the appointments of Benjamin F. Groot, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Boston, and of Frederick J. Rathbun as an assistant examiner. Please advise us of the effective dates."

Approved unanimously.

Memorandum dated March 25, 1939, from Mr. Bethea, Assistant Secretary, submitting a circular dated March 22 from the Secretary of War which stated that the President verbally authorized the Heads of the Executive Departments and Independent Offices and Establishments to excuse employees whose services can be spared without detriment to the public business for sufficient time to participate in or view the Army Day Parade, Thursday, April 6, 1939, and recommending that the Board authorize its division heads to excuse such employees whose services can be spared without detriment to the work of the Board for sufficient time to participate in or to view the parade.

Approved unanimously.

Mr. Bethea suggested that the Board authorize the payment of the cost of luncheon served to Mr. Albert M. Creighton, Member of the Industrial Advisory Committee for the First Federal Reserve District, in the Board's dining room today.

Approved unanimously.

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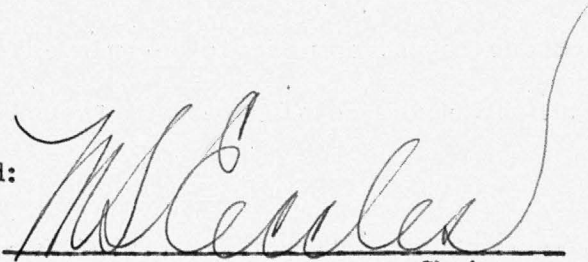
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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.