

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 4, 1939, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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. Leonard, Assistant Chief of the Division
of Examinations
Mr. Williams, Assistant Counsel

The attention of the members of the Board had been called to the bill (S.2045) introduced in the Senate yesterday by Senator Brown which would transfer all examining functions of the Board of Governors and the Federal Reserve banks and the examining and other functions of the office of the Comptroller of the Currency to the Federal Deposit Insurance Corporation. The bill was further discussed.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Leonard and Williams 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 April 1, 1939, were approved unanimously.

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

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"In response to your letter of March 30, 1939, you are advised that the Board approves the employment of the firm of Winthrop, Stimson, Putnam and Roberts as trial counsel to assist your legal department in the mandamus proceeding brought against the Federal Reserve Bank of New York by Armand Schmoll, Inc.

"The Board's approval is given subject to the conditions set forth in its letters of February 15, 1926 (X-4531) and April 15, 1936 (X-9548), under the terms of which the Federal Reserve Bank will obtain an agreement from this firm of special counsel that any fee in excess of \$1,000 will be subject to final review and approval by the Board of Governors and that, before paying any fee which would exceed \$1,000, the Federal Reserve Bank will submit the same to and obtain the approval of, the Board of Governors."

Approved unanimously.

Letter dated April 3, 1939, to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the recommendation contained in your letter of March 27 on the subject, the Board approves the establishment and operation of a branch at Niagara Falls, New York, by the 'Manufacturers and Traders Trust Company', Buffalo, New York. It has been noted that the State authorities have approved the establishment of the proposed branch and that counsel for the Reserve bank is satisfied with the legal aspects involved."

Approved unanimously.

Telegram to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Retel March 31 concerning affiliate reports to be obtained by First St. Joseph Stock Yards Bank, South St. Joseph, Missouri. Board today made determination suggested in its letter of March 23 and letter with respect thereto follows. In circumstances, Board will not insist upon report of The First Trust Company as a holding

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"company affiliate. Report of The First National Bank of St. Joseph covered by express statutory exception as to reports of member banks."

Approved unanimously, together with a letter addressed jointly to The First National Bank of St. Joseph and The First Trust Company, both of St. Joseph, Missouri, reading as follows:

"As a result of an inquiry by the Federal Reserve Bank of Kansas City in connection with anticipated voting permit applications by The First National Bank of St. Joseph and The First Trust Company, both of St. Joseph, Missouri, the Board has given consideration to the holding company affiliate status of such organizations.

"The Board understands that The First Trust Company was organized by The First National Bank of St. Joseph in 1909, primarily to conduct a trust and real estate mortgage loan business which could not be conducted by a national bank; that all of the stock of The First Trust Company (except qualifying shares transferred to directors subject to options to repurchase) is held by the president of The First National Bank of St. Joseph in trust for the shareholders of such bank and the directors of The First Trust Company are required to be directors of the bank; that the two institutions occupy the same banking quarters, are under the same management, and in substance are departments of a single banking institution which is the largest in St. Joseph, the national bank handling the commercial business and the trust company handling the savings, trust, bond, and real estate mortgage loan business; that The First Trust Company owns 1,289 of the 1,331 outstanding shares of common stock of the First St. Joseph Stock Yards Bank, the Reconstruction Finance Corporation owning all of the 1,169 outstanding shares of preferred stock; and that The First National Bank of St. Joseph does not directly or indirectly own or control any stock of, or manage or control, any bank other than The First Trust Company and the First St. Joseph Stock Yards Bank.

"In view of these facts, the Board has determined that The First National Bank of St. Joseph and The First

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"Trust Company are not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended, and, therefore, they are not holding company affiliates for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that either of such organizations might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to make further determinations with respect to such organizations at any time on the basis of the then existing facts."

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

"This refers to your letter of March 13, enclosing a letter from Mr. R. L. Bunce, Deputy Superintendent of Banks of the State of Iowa, in connection with publication of condition reports rendered by Iowa State bank members to the Federal Reserve Bank of Chicago and the State banking department, respectively.

"We greatly appreciate the cooperation of State banking departments in accepting condition statements published in accordance with the Board's form F.R. 105e, and shall continue to do everything practicable to facilitate the single, joint publication of condition reports submitted by State bank members, as of the same call date, to their respective Federal Reserve banks and State banking departments. The latest action by the Board in that direction was the further revision of form F.R. 105e described in the Board's letter S-154 of March 23.

"The possible acceptance from State bank members of condition reports in which all reserve accounts are shown among liabilities, as required by the State banking department of Iowa, has been carefully considered. As you know, the instructions (form F.R. 105a) governing the preparation of condition reports of State bank members require that all valuation allowances or reserves which

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"have been set up by the reporting bank for estimated losses or depreciation be deducted from the respective items of assets and, of course, excluded from capital account. The same requirement is included in the corresponding instructions issued by the Federal Deposit Insurance Corporation, and the instructions issued by the Comptroller of the Currency include a corresponding requirement that unallocated charge-offs for depreciation in securities be applied against the appropriate items of assets. Many State bank members had been deducting valuation reserves from assets and capital account even before the instructions referred to were issued, and the inclusion of this requirement in the detailed instructions made available at the time of the last call was in line with the practice to which the Board had given approval some time back. For example, letter X-9032 of November 28, 1934, stated that --

'The Board considers that the charge off or elimination of estimated losses and depreciation in assets may be effected properly through the establishment and maintenance of valuation reserves, provided that in all reports and published statements of condition such reserves be deducted from the respective assets against which allocated, thereby reporting such assets in the same amounts as if the charge offs actually had been made, and that the losses to provide for which the reserves were established are charged against the respective reserves as soon as such losses are definitely determined.'

"In the circumstances, the Board would not be willing to accept condition reports on form F.R. 105 or statements published in accordance with form F.R. 105e which included among liabilities valuation reserves set up to take care of estimated losses or depreciation in assets. Of course there is no requirement that banks set up valuation reserves. The use of valuation reserves is merely an alternative procedure which is permitted in certain circumstances, and if it causes any difficulties with respect to State requirements the remedy would seem to be for the banks to make direct charge-offs.

"In connection with the reference in Mr. Bunce's letter to the State requirement that the banks' condition

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"statements be on a cash basis, rather than on an accrual basis, it would appear that, if a bank maintains its books on an accrual basis, it would be better for its condition reports to be submitted on that basis, since such a report reflects the undivided profits of the bank more accurately than one submitted on a cash basis. There is no objection from the Board's standpoint, however, to a State bank member's submitting condition reports on form F.R. 105 on either a cash or an accrual basis, the accrual account items on form F.R. 105 having been provided for the use of banks that maintain their books and prepare reports on that basis. It should be understood, of course, that on whatever basis the condition report is rendered, the semi-annual earnings and dividends report must be submitted on the same basis.

"In this connection, it is our understanding that Mr. Bates, Superintendent of Banks of the State of Iowa, is a member of the Executive Committee of the National Association of State Bank Supervisors; in fact, he participated in the final discussions of that committee in Washington just before the standard form of condition report was adopted. We understand that Mr. Bates indicated to the Federal Deposit Insurance Corporation some time ago that, although he was not then prepared to adopt the standard form, he was inclined to think that it would be adopted for Iowa State banks in the near future."

Approved unanimously.

Memorandum dated April 3, 1939, from Mr. Bethea, Assistant Secretary, reading as follows:

"It will be recalled that recently, at the request of the Federal Advisory Council, a copy of the report which it made to the Banking and Currency Committee of the Senate on the Barkley trust indenture bill (S.477) was transmitted to the Committee on Interstate and Foreign Commerce of the House, which expects to hold hearings tomorrow on the trust indenture bill introduced in the House by Congressman Cole (H.R. 5220).

"On last Saturday the attached request was received from Congressman Cole asking that the Federal Advisory Council be requested to submit to him by Tuesday morning (tomorrow) a report 'addressed strictly to H.R. 5220'.

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"Mr. Cole's request was wired to the Federal Advisory Council and telephone advice has been received from Mr. Howard A. Loeb, Vice President of the Council, this morning to the effect that a copy of the Council's report will be transmitted to the Board this afternoon or tomorrow for transmission to Mr. Cole.

"While the provisions of the Cole bill are somewhat different from the provisions of the Barkley bill as originally introduced in the Senate this year and upon which the former report of the Advisory Council was based, it is assumed that the new report by the Advisory Council will be in substance the same as its former report. If this is the case and in view of the limited time, the members of the Board may be willing to authorize the transmission of the new report by the Advisory Council to Mr. Cole as soon as such report is received. If the members of the Board approve of this procedure, it will be appreciated if they will so indicate by initialing this memorandum."

The procedure outlined in the memorandum was approved unanimously. The letter sent to Mr. Cole today read as follows:

"Referring further to your letter of March 31, 1939, there is transmitted herewith, at the request of the Executive Committee of the Federal Advisory Council, a self-explanatory letter dated April 3, 1939, from the Secretary of the Council, expressing the views of the Council's Executive Committee with respect to the trust indenture bill, H.R. 5220.

"You will understand, of course, that the Board of Governors in transmitting the enclosed letter is not thereby expressing any views or opinions of its own with regard to the bill."

Letter to the Bureau of the Budget, prepared in accordance with the action taken at the meeting of the Board on March 31, 1939, and reading as follows:

"The Board of Governors has considered the draft of

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"a bill to provide a better coordination of Government reports, to simplify Government reporting requirements, and for related purposes, and is in agreement with the purposes of this legislation, namely, to reduce as far as possible the cost to the Government and to reporting firms of obtaining information necessary for the conduct of the public business.

"In order to clarify the apparent intention of the last proviso of section 8 of the bill, the Board recommends that this proviso be changed to read as follows:

'Provided further, That any restriction of confidence or penalty for unlawful disclosure of confidential information otherwise applicable to the officers and employees of the agency collecting the information or furnishing it to another agency shall not be applicable to them in making available information pursuant to the provisions of this section, but shall be applicable to the officers and employees of any agency receiving information in accordance with the provisions of this section.'

"With this change the Board favors the enactment of the bill."

Approved unanimously.

Letter dated April 3, 1939, to the Presidents of all Federal Reserve banks, reading as follows:

"In order to provide the Board with some information as to the amount of intermediate and long-term credit now being extended to commercial and industrial businesses, it will be appreciated if you will kindly request each weekly reporting member bank to furnish you with a report on Form F.R. 464, a supply of which is enclosed, as of Wednesday, April 19, 1939. The reports will, of course, be treated as confidential, and if any of the information is released by the Board it will be in summary form.

"Please forward the reports to the Board, together with any comments by your staff which may be useful to the Board in analyzing or interpreting the reports."

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Approved unanimously, with the understanding that the report form referred to in the letter would be cleared with the Central Statistical Board before being sent to the Federal Reserve banks.

In connection with the above matter, the following letter dated April 3, 1939, to Honorable Jerome Frank, Commissioner, Securities and Exchange Commission, was also approved unanimously:

"Referring to your letter of October 5, 1938, to Chairman Eccles and your letter of November 28, 1938, to Mr. Woodlief Thomas, the Board has decided to ask weekly reporting member banks in 101 leading cities to furnish it with the information called for by the attached form with respect to loans with maturities in excess of one year, held by them on Wednesday, April 19, 1939.

"This form has been discussed with Mr. Goldschmidt and Mr. Bolton-Smith of your office and it is understood that it meets with their approval."

Memorandum dated March 28, 1939, from Mr. Dreibelbis, Assistant General Counsel, with respect to amendments to the Federal Bankruptcy Act, as amended by the Chandler Act approved June 22, 1938, and particularly to Section 60(a)-(b) of the Act. The memorandum discussed the provisions of Section 60(a) of the Act and stated that counsel for the various Federal Reserve banks were aware of the problem created thereby and recommended that unless the Board desired to call the matter to the attention of Congress, it would appear that no action upon the part of the Board was necessary.

It was agreed that no action should be taken by the Board.

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

"There are attached a copy of a letter which the Securities and Exchange Commission has referred to the Board from Mr. B.B. Webb, Chevrolet Motor Co., General Motors Building A-8, Detroit, Michigan, and a copy of our letter to Mr. Webb.

"It appears that Mr. Webb purchased 100 shares of Montgomery Ward & Co., Inc. common stock at 48 when he held an option to 'put' the stock at 50-1/2. It appears further that his broker exercised the 'put' at 50-1/2 before the expiration of three full business days after the purchase of the stock.

"It seems clear, of course, that the broker did not violate Regulation T in thus exercising the 'put' since section 7(e) of the regulation emphasizes the fact that exchanges or brokers may impose requirements stricter than those specified in the regulation. The footnote to section 3(e) also points out that the regulation is not intended to countenance on the part of customers the practice commonly known as 'free-riding' or 'three-day riding'. So far as the specific requirements of the regulation are concerned, it may be observed that a 'put' cannot be counted as margin for purposes of the regulation because it has no loan value under section 3(c), and it may be further noted that margin required under the regulation must, according to section 3(b), be obtained 'as promptly as possible and in any event before the expiration of three full business days' following the date of the transaction.

"It will be appreciated if you will make an appropriate reply to Mr. Webb."

Approved unanimously.

Letter to the Comptroller of the Currency, reading as follows:

"It is respectfully requested that you place a special order with the Bureau of Engraving and Printing, supplementing the order requested June 14, 1938, for the printing of Federal reserve notes of the 1934 Series

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"in the amounts and denominations stated for the Federal Reserve Bank of New York:

Denomi- nation	Number of sheets	Amount
\$50	30,000	\$18,000,000
100	30,000	36,000,000
1000	3,000	36,000,000"

Approved unanimously.

Memorandum dated April 3, 1939, from Mr. Wyatt, General Counsel, reading as follows:

"In order to expedite the adoption of amendments to Regulation J and the promulgation of a new regulation on noncash collections recommended by the Standing Committee on Collections and by the Conference of Presidents as part of the plan for putting into effect a more expeditious system of collection, I respectfully request that this office be authorized to depart somewhat from the procedure which has been customary in such matters during recent years.

"The Chairman of the Standing Committee on Collections has called a meeting of his Committee to be held in Chicago on April 19 for the purpose of making final arrangements regarding amendments to the check collection circulars, the noncash collection circulars and the time schedules, which will be necessary in order to put into effect the changes in the collection procedure recently recommended by the Standing Committee on Collections and approved by the Conference of Presidents at their meeting on March 6; he has invited Mr. Smead and the undersigned to attend that meeting; and he has suggested that it be attended also by the Committee of five Federal Reserve bank counsel which met in New York with the Standing Committee on Collections in January and considered certain aspects of this subject.

"The revised cash and noncash circulars cannot be issued until certain proposed amendments to Regulation J have been adopted and the proposed new regulation on

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"noncash collections has been issued; and the proposed joint meeting of the Committee on Collections and the Counsel in Chicago will afford an excellent opportunity to work out both the technical and legal details of these documents and put them in shape for prompt action by the Board.

"However, the time is so short that it will be impossible to clear tentative drafts of the new regulation on noncash collections and the proposed amendments to Regulation J with the Board and its staff and with the twelve Federal Reserve banks prior to the meeting in Chicago.

"If the Board has no objection, therefore, I would like to proceed as follows:

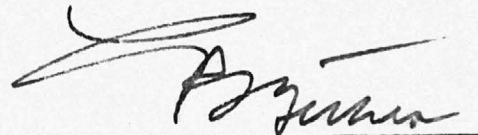
"1. Complete the preparation of tentative drafts of the two regulations with the assistance of Mr. Smead and furnish copies simultaneously to all members of the Board, all divisions of the Board's staff, all Federal Reserve bank Counsel and all members of the Standing Committee on Collections, and invite their criticisms and comments;

"2. Endeavor to clear these drafts with Mr. Smead, the Standing Committee on Collections, and the Committee of five Federal Reserve bank Counsel at the joint meeting in Chicago, in the light of such suggestions that have been received up to that time; and


"3. Submit revised drafts of both regulations to the Board as soon as possible after the meeting in Chicago, taking into consideration any additional suggestions which have been received between the date of that meeting and the date of submission to the Board."

The procedure outlined in the memorandum was approved unanimously.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.