

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, May 11, 1939, at 11:30 a. m.

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

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

Memorandum dated May 10, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Haskell P. Wald be appointed on a permanent basis as an economic assistant in the Division, with salary at the rate of \$1,800 per annum, effective at the expiration of his present temporary appointment at the close of May 31, 1939, subject to his passing satisfactorily the usual physical examination.

Approved unanimously.

Letter to "The Union National Bank of Westminster", Westminster, Maryland, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers, and grants you authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come

5/11/39

-2-

"into competition with national banks are permitted to act under the laws of the State of Maryland, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to "The First National Bank of Wahoo", Wahoo, Nebraska,
reading as follows:

"This refers to the resolution adopted on January 4, 1939, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

5/11/39

-3-

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

"A careful review has been made of the reports submitted in response to the Board's letter of July 26, 1938, covering loans made to Richard Whitney and Company and Richard Whitney by the Continental Bank & Trust Company, the Corn Exchange Bank Trust Company, the New York Trust Company, the Chemical Bank & Trust Company, the Marine Midland Trust Company, and the Manufacturers Trust Company, all of New York City.

"The Board wishes to commend you and your staff for the care and diligence exercised in compiling and submitting the information requested and it is felt that copies of the respective reports should be delivered to the several banks involved. It is understood that the details of the various transactions were thoroughly discussed by the examiners with certain officers at each bank and, as a result of such discussions, it is felt that the banks have a better understanding of the technical provisions of the law and regulation which places them in a position to avoid any appearance of technical violation. It is suggested, however, that your letter transmitting a copy of the report to each bank should contain a summary of matters of criticism, if any, and suggestions with respect to the correction of any erroneous policies or practices that may have been noted.

"As you probably know, the Securities and Exchange Commission submitted to the Department of Justice a report of the result of its investigation of the Whitney case and, in the report, advised the Department that the question of whether the pertinent law and Regulation U had been violated was under investigation by the Board of Governors. In the circumstances, the Board submitted to the Department of Justice a summary of the findings contained in the reports received, a copy of which is enclosed for your confidential use, and in the letter accompanying the summary it was said:

'It may be said that the possible violations in the aggregate are few and in general of a technical nature, or doubtful as to existence, as to proof, or both.'

For your information and confidential use, the Board has

5/11/39

-4-

"since received from the Department of Justice an acknowledgment which does not contain the statement in specific terms but is believed to mean that the Department has decided to close its file in the matter without further action."

Approved unanimously.

Letter to Mr. Eugene S. Duffield, Assistant to the Secretary of the Treasury, reading as follows:

"This refers to your letter of May 5, 1939, with which you enclosed a draft of a bill which would authorize the Secretary of the Treasury to reimburse the Federal Reserve System for losses resulting from the redemption of Federal Reserve notes and Federal Reserve bank notes which have heretofore disappeared from the custody of the Bureau of Engraving and Printing and entered into circulation without being regularly issued.

"After giving this question considerable thought the Board has reached the conclusion that on the whole it would be preferable not to send the bill to Congress at this time.

"Your courtesy in giving the Board an opportunity to consider this matter is appreciated and should at any time in the future the Board feel that Congress should be asked to authorize the Treasury to reimburse the Federal Reserve banks for redeeming such Federal Reserve notes and Federal Reserve bank notes it will communicate with you further in regard thereto."

Approved unanimously.

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

"Reference is made to your letter of May 2 with respect to the Federal Reserve banks making charges for holding, in safekeeping, securities pledged by nonmember banks as collateral to deposits of bankrupt estates under the provisions of Chapter VII of the amended Bankruptcy Act.

"The question is raised in your letter whether the substitution of securities by a nonmember bank, without

5/11/39

-5-

"increasing the total securities on deposit, is to be regarded as an additional transaction subject to the schedule of charges mentioned in the Board's letter of December 7, 1938, S-131. These charges were approved by the Presidents' Conference at the meeting held in Washington on October 24-25, 1938.

"Informal inquiries made at three of the nearby banks indicate that two of them have tentatively decided to make no additional charge when a substitution of securities is made by a nonmember bank without increasing the total securities on deposit. The third bank has not as yet received any securities for safekeeping from nonmember banks.

"It appears from our informal inquiries that the charges for holding securities in safekeeping for nonmember banks are not being made in a strictly uniform manner by all banks. For example, one Reserve bank is making, in accordance with the original recommendation of the Committee on Free Services, such charges at the time the securities are deposited, while another Reserve bank plans to make the charges at the end of the year or when the securities are withdrawn from safekeeping. One bank tentatively has in mind basing the charges on the maximum amount of securities held in safekeeping at any one time during the year. Another bank is basing the charges on the amount of securities originally deposited with the thought that a refund may be given if the amount of securities held is substantially reduced during the year.

"In view of the above, it appears that it might be well to discuss at a Presidents' Conference the method of computing charges on securities held in safekeeping for nonmember banks under the Bankruptcy Act. It will be appreciated if you will advise us whether you concur in this suggestion and, if so, whether you would be good enough to ask Mr. Harrison to place the topic on the program of the next Conference."

Approved unanimously.

Letter to the Secretary of State, reading as follows:

"With reference to your letter of May 6 enclosing a despatch from the American Consul at Bombay, India, I am pleased to confirm that henceforth the Board desires to be informed by cable of changes in the official discount

5/11/39

-6-

"rate of the Reserve Bank of India rather than that of the Imperial Bank."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of May 3, 1939, requesting an expression of the Board's views with respect to certain questions as to whether the absorption by a member bank of costs incident to the shipping of currency or coin to a correspondent bank constitutes a payment of interest in violation of the Board's Regulation Q.

"In response to a recent inquiry from Mr. Fletcher of your Bank with respect to whether a particular practice involves an indirect payment of interest, the Board stated in its letter of May 8, 1939, that it did not feel that it should make an exception to its policy of not issuing detailed interpretations or rulings with reference to questions as to whether the absorption of certain expenses constitutes a payment of interest. As you know, that policy was announced by the Board in its letter of March 18, 1937 (X-9846).

"The considerations stated in the Board's letter of May 8, 1939 to Mr. Fletcher appear to be equally applicable in the present case. Accordingly, the Board feels that it should not depart from its present policy by undertaking to rule with reference to the questions presented in your letter.

"It is hoped that you will appreciate the reasons for the Board's position in this matter."

Approved unanimously.

Letter to the Chairmen of all Federal Reserve banks, reading as follows:

"At the time of the meeting of the Chairmen of Federal Reserve banks in Washington on January 30, 1939, the suggestion was made that the Board of Governors call another meeting of the Chairmen sometime in the course of the next few months.

5/11/39

-7-

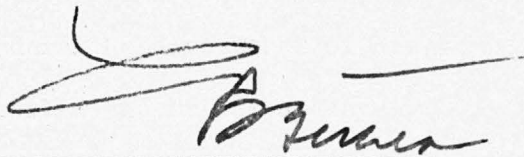
"The Board had contemplated that it would be in a position to invite the Chairmen to come to Washington again before this time but the press of other matters has made it impossible to arrange the meeting. Because of absences of some of the members of the Board it will not be convenient to hold the conference during the month of May and the suggestion has been made that it would be preferable to defer the meeting until fall. It will be appreciated if you will advise if this suggestion meets with your approval."

Approved unanimously.

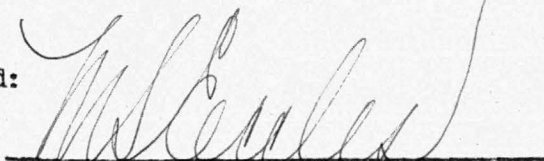
Memorandum dated May 6, 1939, from Mr. Bethea, Assistant Secretary, recommending that, for the reason stated in the memorandum, the sum of \$40 be added to the item Postage and Expressage in the 1939 budget for the Board Members' Section.

Approved unanimously.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.