

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, May 15, 1939, at 11:30 a.m.

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

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 12, 1939, from Mr. Bethea, Assistant Secretary, stating that as of the close of May 11, 1939, Mr. Morrill had exhausted all of his accrued sick leave and the thirty days advance sick leave that may be allowed under the leave regulations of the Board without the specific approval of the Board, and recommending that he be granted such additional sick leave with pay as may be necessary for the complete restoration of his health.

Approved unanimously.

Memorandum dated April 11, 1939, from Mr. Szymczak referring to his statement at the meeting on that date with respect to the procedure to be followed by the Board in considering the recommendations of the Federal Reserve banks regarding salaries of officers of the banks, and recommending that the plan outlined at the meeting on April 11, 1939, be adopted.

Approved unanimously.

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Letter to Mr. LeRoy W. Campbell, Vice President, Chemical Bank & Trust Company, New York, New York, reading as follows:

"This refers to your letter of May 3, addressed to Governor Ransom, with regard to the question whether the practice described in an enclosed clipping from the New York Sun is in conflict with Regulation Q of the Board of Governors of the Federal Reserve System.

"It appears from the clipping that depositors who have special checking accounts in a member bank are offered a credit of \$1 for the introduction to the bank of depositors who open new special checking accounts. This amount may be given in the form of cash or in the form of ten free checks, for which these depositors would ordinarily pay 10 cents each. The plan is apparently a temporary one, expiring June 17, 1939.

"The Federal Reserve Act forbids the direct or indirect payment of interest on demand deposits and the Board's Regulation Q provides that 'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.' The amount of \$1, which is given by the bank to a depositor for bringing in a new deposit account, is not compensation for the use of the funds constituting the deposit account of such depositor but apparently is for the service which he renders in introducing the new depositor to the bank. Such a service conceivably might be rendered by any person, whether or not a depositor. Likewise, it does not appear that the payment is one which should be regarded as compensation for the use of the funds constituting the account of the new depositor, as it does not inure to his benefit but is made to the person who introduces him.

"Accordingly, it is the view of the Board of Governors, on the basis of the information enclosed with your letter, that the payment in question is not a payment of interest within the meaning of the statute or the Board's Regulation Q."

Approved unanimously.

Memorandum dated May 12, 1939, from Mr. Carpenter, Assistant

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Secretary, referring to the decision reached at the meeting of the Board on December 20, 1938, that when one of the Board's regulations is amended the entire regulation should be reprinted as soon as possible and sent to the Federal Reserve banks and other interested parties in order to avoid confusion, and recommending that, because of the possibility of another amendment to Regulation T in the very near future, in addition to the amendment adopted by the Board on May 9, 1939, the reprinting of the regulation be deferred until decision is reached by the Board on the further amendment.

Approved unanimously.

Letter to the Chairmen of all Federal Reserve banks, prepared pursuant to the action taken by the Board on April 17, 1939, and reading as follows:

"There is attached, for your information, a copy of the Board's semiannual functional expense exhibit for the Second Half, 1938. This report has been compiled from the functional expense reports which are submitted semi-annually to the Board of Governors by each Federal Reserve bank and branch.

"The functional expense reports show the expenses of the Reserve banks by various 'functions', such as the Check Collection function, Noncash Collection function, Currency and Coin function, etc., and also in a number of cases by 'expense units'. For example, the Check Collection function is broken down into several expense units such as the City Checks (Clearings) unit, the Country Checks-Outgoing unit, the Return Items unit, etc.

"In the case of certain expense units a measurement of the volume of work is reported and figures are contained in the Board's exhibit showing a comparison between Reserve banks of the cost of handling the various classes of checks,

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"currency and coin, etc., and of the number of units handled per employe per day.

"From a review of the attached exhibit you will note that there are wide variations in the cost of performing like operations by the different Reserve banks. For example, the variations in the unit costs of handling country checks at the head offices may be noted by referring to the next to the last column at the bottom of page 25. The unit costs for the Currency-Receiving and Sorting unit are shown in the third from last column at the top of page 22, while those for the Government Checks unit are contained in the last column at the bottom of page 38. There are also wide variations in costs in some of the functions for which a measurement of the volume of work is not available such as the Loans, Rediscounts and Acceptances function as shown on page 18.

"Since the Federal Reserve banks are located in cities of varying sizes and in widely separated localities and, furthermore, since they must conform in a general way to local customs and practices in the matter of salaries, length of working day, etc., certain variations in unit costs are to be expected. It is thought, however, that studies should be made of those units in which there are wide variations in costs with the view of determining the reasons for the variations and whether they are entirely justified.

"It is believed that the directors of the Federal Reserve banks would find such studies particularly helpful to them in passing upon budgets for the various departments of the bank. The Board would suggest, therefore, that if you have not already done so you consult with the President of your bank with respect to the functional expense report and initiate such studies as are thought necessary to acquaint your directors with the reasons for major differences in expenses where such expenses at your bank are substantially out of line with similar expenses at other Reserve banks.

"Some of the differences shown in the expense reports may be due to a failure to properly allocate expenses to the several expense units. In this connection, representatives of the Board who are familiar with the functional expense reports have devoted some time in reviewing allocations of expenses to fiscal agency and other units and it is expected that they will continue their studies along these lines. Such studies as they may make, however, are not

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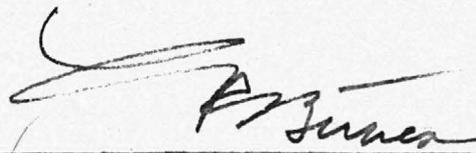
"intended to serve the same purpose as those referred to above."

Approved unanimously.

Memorandum dated April 25, 1939, addressed to Mr. Goldenweiser, Director of the Division of Research and Statistics, by Miss Rackstraw, Librarian, stating that the Special Libraries Association is having its annual meeting in Baltimore, Maryland, during the week of May 22-27, with a day visit to Washington on May 25, and suggesting that, following a visit of the Financial Group of the Association to the Board's building, tea be served to the members of the group in the Board's dining rooms. The memorandum stated that the estimated cost of such refreshments would be approximately \$25.00 and Mr. Goldenweiser had attached his recommendation to the memorandum that the Board authorize the expenditure for the purpose stated.

Approved unanimously.

Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:

  
Chairman.