

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 31, 1939, at 2:15 p.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
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. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Cagle, Assistant Chief of the Division of Examinations

Before this meeting there had been circulated among the members of the Board a memorandum dated July 28, 1939, from Messrs. Wyatt and Smead referring to the consideration which had been given recently by the Board, the Presidents' Conference, and committees of the Presidents' Conference to the amendment of Regulation J, Check Clearing and Collection, and the check collection circulars and time schedules of the Federal Reserve banks, and submitting the following recommendations:

(1) That the Board make the revised regulation effective on September 1, 1939, with the following additional amendment recommended in substance by the Committee appointed by the Presidents' Conference on June 20, 1939: Change the first sentence of section 6 to read as follows:

"Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this regulation, governing the sorting, listing, packaging, and

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"transmission of items, and other details of its check clearing and collection operations."

(2) That the Board approve the revised time schedules for cash items between Federal Reserve bank and branch cities, which have been submitted for the Board's approval in accordance with the Board's letter of May 27, 1939, R-474.

(3) That the Board send the attached telegram to all of the Federal Reserve banks advising them of this action and requesting that no publicity be given to the matter until the Board is advised that all Federal Reserve banks are ready to mail copies of the revised regulation, check collection circulars and time schedules to all member banks simultaneously.

(4) That the Board's Secretary be authorized to send a telegram to each Federal Reserve bank advising it that the Board has no changes to suggest in its check collection circular, when he is advised that the Division of Bank Operations and Counsel's office have examined a draft of such circular and found it to be substantially in accordance with the recommendations of the Standing Committee on Collections and the Committee of Federal Reserve Bank Presidents.

(5) That the attached press statement be approved and that the Board's Secretary be authorized to release it and to advise the Federal Reserve banks of the release date when all of the Federal Reserve banks are ready to mail the revised regulation, check collection circulars and time schedules to all member banks.

In connection with the second recommendation attention was called to the proposal of the Federal Reserve Bank of San Francisco to provide deferred credit of three business days on all items payable outside of the Twelfth Federal Reserve District, the reason given for this proposal being that not more than four other Federal Reserve cities can be reached from offices of the bank in less than three days and simplicity in the time schedules of the bank would justify a three day availability for all items payable outside of the district.

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It was pointed out that if the San Francisco schedules were made effective three day credit would be allowed on items from Salt Lake City to Denver (unless the member banks sent the items direct to the Denver branch), but that one day credit would be allowed on items from Denver to Salt Lake City. The schedules also called for an increase in the period of deferred availability between certain Federal Reserve cities within the Twelfth District. Mr. Smead stated that another point that had been considered by the Federal Reserve Bank of San Francisco was that under the plan of allowing a maximum of three days deferred availability on all items requiring three or more days to collect the San Francisco bank would probably be required to carry a larger amount of float than any other Federal Reserve bank. The opinion was concurred in by all of the members present that the latter point was not a serious matter at this time. There was a discussion also of the reasons for approval by the Board of the time schedules of Federal Reserve banks and it was the consensus of the members of the Board that it was desirable to continue the procedure which had been followed for more than twenty years.

At the conclusion of the discussion it was agreed that President Day of the Federal Reserve Bank of San Francisco should be advised that the Board was not willing to approve the proposed schedules for that bank and that it was suggested that the bank give consideration to a revision of its schedules to bring them more closely in line with the schedules adopted by the other eleven Federal Reserve banks.

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In accordance with the action taken at the meeting of the Board on May 26, 1939, and the first recommendation contained in the memorandum from Messrs. Wyatt and Smead, and upon motion by Mr. McKee, the following resolution was adopted by unanimous vote:

RESOLVED, That effective September 1, 1939, Regulation J, Check Clearing and Collection, be amended to read as follows:

CHECK CLEARING AND COLLECTION

SECTION 1. STATUTORY PROVISIONS

Section 16 of the Federal Reserve Act authorizes the Board of Governors of the Federal Reserve System to require each Federal Reserve bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the Act approved June 21, 1917, authorizes each Federal Reserve bank to receive from any nonmember bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve bank.

SECTION 2. GENERAL REQUIREMENTS

In pursuance of the authority vested in it under these provisions of law, the Board of Governors of the Federal Reserve System, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve bank exercise the functions of a clearing house and collect checks for such of its member banks as desire to avail themselves of its privileges and for such nonmember State banks and trust companies as may maintain with the Federal Reserve bank balances sufficient

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to qualify them under the provisions of section 13 to send items to Federal Reserve banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as nonmember clearing banks.

Each Federal Reserve bank shall exercise the functions of a clearing house and collect checks under the general terms and conditions hereinafter set forth, and each member bank and nonmember clearing bank shall cooperate fully in the system of check clearance and collection for which provision is herein made.

SECTION 3. CHECKS RECEIVED FOR COLLECTION

(1) Each Federal Reserve bank shall receive at par from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, checks¹ drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectible at par in funds acceptable to it.

(2) Each Federal Reserve bank may receive at par from member and nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks in other Federal Reserve districts, and checks drawn on all other nonmember banks in other Federal Reserve districts which are collectible at par in funds acceptable to the collecting Federal Reserve bank.

(3) No Federal Reserve bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank.

SECTION 4. TIME SCHEDULE AND AVAILABILITY OF CREDITS

(1) Each Federal Reserve bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available for withdrawal or other use by the sending bank. For all checks received,

¹A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to the order of a certain person therein named, or to him or his order, or to bearer, and payable on demand.

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the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

(2) For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available for withdrawal or other use by the sending bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

(3) For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve bank at full face value, but the proceeds will not be counted as reserve nor become available for withdrawal or other use by the sending bank until such time as may be specified in such time schedule,² at which time credit will be transferred from the deferred account to the reserve account or clearing account subject to final payment and will then be counted as reserve and become available for withdrawal or other use by the sending bank; provided, however, that the Federal Reserve bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any item for which the Federal Reserve bank has not yet received payment in actually and finally collected funds.

SECTION 5. TERMS OF COLLECTION

The Board of Governors of the Federal Reserve System hereby authorizes the Federal Reserve banks to handle such checks subject to the following terms and conditions; and each member and nonmember clearing bank which sends checks to any Federal Reserve bank for deposit or collection shall by such action be deemed (a) to authorize the Federal Reserve banks to handle such checks subject to

²For rules for computation of reserves and penalties for deficiencies in reserves, see Regulation D, Secs. 2 and 3.

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the following terms and conditions; (b) to warrant its own authority to give the Federal Reserve banks such authority; (c) to agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal Reserve bank within the scope of its authority for the purpose of collecting such checks; and (d) to guarantee all prior endorsements on such checks whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

(1) A Federal Reserve bank will act only as agent of the bank from which it receives such checks and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal Reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal Reserve bank may, in its discretion and at its option, either directly or through or from an agent, accept in payment of or in remittance for such checks, cash, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve bank shall not be liable for the failure of the drawee bank or any agent to pay or remit for such checks, nor for any loss resulting from the acceptance from the drawee bank or any collecting agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from the drawee bank or any collecting agent.

(4) Checks received by a Federal Reserve bank which are payable in its own district will ordinarily be forwarded or presented direct to the banks on which they are drawn, and such banks will be required to remit or pay therefor at par in such one or more of the forms of pay-

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ment or remittance authorized under paragraph (3) hereof as may be acceptable to the Federal Reserve bank.

(5) Checks received by a Federal Reserve bank payable in other districts will ordinarily be forwarded for collection to the Federal Reserve bank of the district in which such checks are payable; provided, however, that, where arrangements can be made satisfactory to the collecting bank or agent and to the Federal Reserve bank of the district in which such checks are payable, any such checks may be forwarded for collection direct to the bank on which they are drawn or at which they are payable, or may be forwarded for collection to another agent with authority to present them for payment direct to the bank on which they are drawn or at which they are payable. All such checks shall be handled subject to all the terms and conditions of this regulation.

(6) With respect to any check sent direct by a member or nonmember clearing bank in one district to a Federal Reserve bank in another district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the check is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such check to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the check to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

(7) Bank drafts received by a Federal Reserve bank in payment of or in remittance for checks handled under the terms of this regulation shall likewise be handled for collection subject to all the terms and conditions of this regulation.

(8) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned. In such event, neither the owner or holder of any such check, nor the bank which sent such check to the Federal Reserve bank for collection shall have any right of recourse upon, interest in, or right of payment from, any reserve balance, clearing account, deposit account, or other funds of the drawee bank or of any bank to which such checks

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have been sent for collection, in the possession of the Federal Reserve bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension or closing of such paying, remitting, or collecting bank.

SECTION 6. OTHER RULES AND REGULATIONS

Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this regulation, governing the sorting, listing, packaging, and transmission of items, and other details of its check clearing and collection operations. Such rules and regulations shall be set forth by the Federal Reserve banks in their letters of instruction to their member and non-member clearing banks and shall be binding upon any member or nonmember clearing bank which sends any check to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.

Upon motion by Mr. McKee, the time schedules submitted by the Federal Reserve banks, other than San Francisco, were approved unanimously, effective September 1, 1939, and Mr. Szymczak was authorized to approve the revised schedules submitted by the Federal Reserve Bank of San Francisco when it is determined that they are in harmony with the schedules of the other Federal Reserve banks.

The remaining recommendations in the memorandum from Messrs. Wyatt and Smead were approved unanimously with the understanding that the telegraphic advices to the Federal Reserve banks referred to therein should be changed by the Secretary in such manner as might be made necessary by the deferred action on the time schedules submitted by the

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Federal Reserve Bank of San Francisco and that the press statement would be issued after the revised schedules for San Francisco had been approved.

The press statement as thus approved read as follows:

"The Board of Governors of the Federal Reserve System announced today that the Federal Reserve banks will put into effect on September 1, 1939 certain changes in their check collection procedure designed to give member banks more prompt credit for checks deposited with the Federal Reserve banks for collection and to reduce the amount of work required in preparing the checks for deposit with the Federal Reserve banks.

"Heretofore member banks have been given credit for checks deposited with the Federal Reserve banks in accordance with time schedules which were based on the actual time required to collect the checks. After September 1 the Federal Reserve banks will credit member banks within three days or less for all checks deposited with them for collection. Immediate credit or credit within one or two days will continue to be given for most checks.

"The Board's Regulation J relating to the clearance and collection of checks and the check collection circulars and time schedules of the Federal Reserve banks have been revised. Copies are being sent by the Federal Reserve banks to all member banks and to all other banks which maintain deposit accounts with the Federal Reserve banks."

At this point Messrs. Smead, Cagle and Vest left the meeting.

Mr. McKee presented a letter dated July 27, 1939, from President Schaller of the Federal Reserve Bank of Chicago stating that at the meeting of the board of directors on that date discussion was had with respect to the distribution made by the bank of studies on economic and monetary matters prepared by C. A. Phillips, economic adviser to the bank, and that it was voted by the directors to authorize the distribution of such studies under confidential cover to a select list

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of firms and individuals who might be interested, with the understanding that the manuscripts are not to be released for publication unless authorized by the board of directors of the bank. The letter from President Schaller stated that the directors had no thought of handling the distribution of the studies in any way other than would be entirely satisfactory to the Board of Governors and that the directors would be glad to have any comments that the Board might care to make.

Mr. McKee moved that the letter be referred to Mr. Davis for consideration and recommendation to the Board.

Carried unanimously.

Mr. Goldenweiser withdrew from the meeting at this point.

There was then presented a draft of letter to Congressman Steagall which contained an expression of the views with respect to Senate Bill 1318, which had passed the Senate and had been referred to the Banking and Currency Committee of the House of Representatives and which would exempt from assessments for deposit insurance balances which insured banks owed to other insured banks.

It was agreed unanimously that, as it did not appear from information available to the Board that the bill would be given active consideration by the Banking and Currency Committee of the House of Representatives at this session of Congress, no letter should be sent.

Consideration was also given to a memorandum dated July 28, 1939, from Mr. Noell, Assistant Secretary, recommending (1) that the Board authorize the purchase of a Webendorfer offset multilith duplicator,

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to supplement the present multilith equipment in use in the duplicating section, at a cost of not to exceed \$3,000 which amount would be added to the 1939 budget for the Secretary's Office, and (2) that the Board approve the appointment of Rexford M. Kirkland as a senior operator, office devices in the Secretary's Office, with salary at the rate of \$1,620 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

Upon motion by Mr. McKee, the recommendations were approved unanimously.

Messrs. Cagle, Assistant Chief of the Division of Examinations, and Wingfield, Assistant General Counsel, joined the meeting at this point.

Mr. McKee presented a draft of letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of April 11, 1939, transmitting the annual report of Transamerica Corporation, San Francisco, California, for the fiscal year ended December 31, 1938, and pointing out that such corporation lists in its balance sheet, as readily marketable assets 'Reserved under Banking Act', 150,000 shares of stock of Bank of America National Trust & Savings Association, San Francisco, California, which you are informed are intended to satisfy the requirements of subsection (c) of section 5144 of the Revised Statutes.

"You indicate that it is your opinion that bank stocks do not comply with such requirements but state that, in view of the fact that subsection (c), unlike subsection (b), does not expressly require that the assets be other than bank stock, you are awaiting advice

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"from the Board before taking the matter up with Transamerica Corporation. After careful consideration, the Board agrees with your views and is of the opinion that, despite the difference in the language, the proper construction of the law is that the assets required by subsection (c), as well as by subsection (b), of section 5144 must be readily marketable assets other than bank stock.

"It is noted that the last paragraph on page 8 of the corporation's annual report to shareholders, submitted as a part of its annual report to the Board, and the answer to question 20(b) of its annual report filed with the Securities and Exchange Commission, a copy of which is enclosed, contain statements which apparently were predicated upon the corporation's interpretation of subsection (c) of section 5144 and leave the impression that the corporation had met the ultimate maximum requirements of such subsection. According to the Board's interpretation of the law as stated above the reserve consisting of bank stock did not fulfill such requirements.

"Please advise Transamerica Corporation accordingly."

In connection with a discussion of the letter it was stated that, in response to a request of the Securities and Exchange Commission, Transamerica Corporation had advised the Commission under date of June 25, 1939, that it had fully met the requirements of subsections (b) and (c) of section 5144 of the Revised Statutes, and the question was raised whether the Securities and Exchange Commission should be advised of the situation referred to in the above letter. It was agreed, however, that it would be better to send the letter to Mr. Day and to defer any decision on the question of advising the Securities and Exchange Commission until advice had been received of the action taken by Transamerica Corporation in response to the letter. There was also a discussion of the status of Transamerica Corporation as a holding

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company affiliate.

At the conclusion of the discussion the proposed letter was approved by unanimous vote.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 7, 1939, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on July 8, 10, 12, 13, 17, 18, 19, 21, 27, 28, and 29, 1939, were approved and the actions recorded therein were ratified unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. C. C. C.
Chairman.