

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 13, 1939, at 10:40 a.m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of
Security Loans
Mr. Dreibelbis, Assistant General Counsel

Mr. Goldenweiser referred to the request made by the Board at the meeting on August 16, 1939 that he prepare, for use in a thorough discussion with the Federal Advisory Council of the question involving the easy money policy, a full statement of the causes of the then present easy money situation and of the actions which could be taken to increase money rates if that policy should be decided on. He stated that in view of a number of other pressing matters he would like to suggest that the Board relieve him of that assignment for the reason that the present does not appear to be an appropriate time to discuss that question. It was stated that the Board of Governors had already informed the Federal Advisory Council that the

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Board would like to have a thorough discussion of this topic with the Council at the time of its meeting in October and Mr. Goldenweiser then suggested that his instructions be modified so as to provide for the preparation of a memorandum in terms of the changed situation without so much discussion of the reasons for the past easy money policy as of the recent change in the money market situation and what the prospects for the future are.

Mr. Goldenweiser's suggestion was approved unanimously.

Mr. Wyatt reported that members of the Board's staff had been working for several months on a proposed regulation setting forth the terms under which non-cash items will be collected by Federal Reserve banks, that the draft of regulation would be submitted to the members of the Board today, and that it would be recommended that the Board approve the form of the regulation but not make it effective until the Federal Reserve banks had had an opportunity to revise their non-cash collection circulars. In this connection he stated that the Standing Committee on Collections of the Presidents' Conference was prepared to revise the uniform provisions in the non-cash collection circulars of the Federal Reserve banks as soon as it was informed of the provisions of the new regulation, but that the Committee had not been assigned the task of revising the non-uniform provisions, that it was felt by Messrs. Wyatt and Smead that

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the circulars should be revised in their entirety for the purpose of making them more uniform, and that, therefore, they thought it would be advisable to suggest to President Harrison in a letter that he arrange for the revision of the entire circulars at the time the uniform provisions are under consideration. Mr. Wyatt added that it had occurred to him that as there will be a meeting of the presidents here next week that might be an appropriate time to take up this matter of procedure and assign the task to the Standing Committee on Collections or some other committee in order to save delay in getting the circulars out. It was understood during the discussion of this matter that the Board would not pass on the form of the regulation today.

Mr. Szymczak moved that the Board approve the sending of a letter to President Harrison in accordance with Mr. Wyatt's suggestion.

Mr. Szymczak's motion was put by the chair and carried unanimously.

Mr. Morrill then read a letter addressed to Chairman Eccles by Mr. Neely, Chairman of the Federal Reserve Bank of Atlanta, under date of September 11, 1939, referring to the consideration given by the directors of the bank at their September meeting to the advisability of reducing the rate applicable to advances by the Reserve bank to banks in that district upon the security of Government obligations and stating that, while no action was taken, he was requested to write the Board of Governors in order that the directors might

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have the benefit of the Board's views as to whether they might properly take formal steps to reduce the rate should the receipt of applications for such loans bring about a situation where a determination of the matter would be of any practical significance.

The matter was discussed and unanimous approval was given to a letter to Mr. Neely in the following form:

"Your letter of September 11, 1939, to Chairman Eccles with respect to the rate in effect at the Federal Reserve Bank of Atlanta on loans to banks secured by Government obligations was brought to the attention of the members of the Board at a meeting this morning.

"It was noted by the Board that while you have received no applications for such loans at the Atlanta bank it is your feeling that the judgment of a majority of your directors probably is that the banks of your district should be able to borrow from their Federal Reserve bank on the same basis as the banks in the Boston, New York and Chicago districts where the existing rate is 1 per cent and that for that reason and the other considerations set forth in your letter, the rate applicable in your district might properly be reduced to 1 per cent.

"Inasmuch as the lower rates on advances of Federal Reserve banks secured by Government obligations were made to meet the situation growing out of war conditions in Europe and inasmuch as a majority of your directors appear to favor a reduction to 1 per cent, the Board feels that the reduction would be justified. In this connection the suggestion was also made that the reduction might be made as soon as possible in order that the Federal Reserve Bank of Atlanta will be in a position to make advances at the lower rate in the event applications are actually made. Should such action be taken by your directors, the Board of Governors would give its prompt approval to the reduced rate."

At this point Mr. Thomas, Assistant Chief of the Division of Research and Statistics, joined the meeting.

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Mr. Draper called on Mr. Parry to make a statement with respect to recent developments in the securities markets and a review of the considerations that would have a bearing on a decision by the Board as to whether or not the margin requirements prescribed in Regulations T and U should be changed. Various phases of the stock market situation as presented by Mr. Parry were discussed, particularly in the light of the impact of the outbreak of war in Europe. At the conclusion of his discussion, Mr. Parry stated that, if the Board should decide to change margin requirements prescribed in Regulations T and U, it would be his recommendation that the margin prescribed in the first paragraphs of the supplements to the regulations be changed from 40 to 50 per cent, leaving the requirement on short sales and the other margin requirements prescribed in the supplements at the present rates.

There followed a discussion of the question whether margin requirements based on the statutory formula contained in the Securities Exchange Act was more satisfactory than the formula now in use.

At the conclusion of the discussion, Mr. Ransom reported that at 11:20 a.m. this morning Mr. Harrison called on the telephone to say that a matter had just come up which he did not have time to report on more formally, but that he would like to report informally to the Board that it appeared that banks in New York had attached German balances in New York with the result that it was impossible for Germany to get exchange in this country, that the Standstill Committee was concerned about it and wanted to re-open negotiations with

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the Germans, that he had just been asked to call that to the attention of the State Department, that he had found that Mr. Welles was at the Treasury, and that he was waiting at the Treasury to talk to Mr. Welles. Mr. Ransom added that while the telephone conversation was in progress Mr. Harrison stated that Mr. Welles was now available and that he was going to talk to him, but that he did not want to talk to the State Department about a matter of this kind without reporting it to the Board.

There was then presented a telegram to Mr. Hamilton, President of the Federal Reserve Bank of Kansas City, reading as follows:

"Your wire September 11. Board has heretofore taken position (X-7364) that a Federal Reserve bank may make advances to banks, whether members or nonmembers, in accordance with the provisions of the last paragraph of section 13 of the Federal Reserve Act. In order to place member banks on the same basis with nonmember banks in this respect, your bank, when it next takes action on rates of discount, may wish to consider establishing a rate schedule which will make it clear that the rate applicable to advances to nonmember banks under the last paragraph of section 13 applies also to advances to member banks under this paragraph."

The telegram was approved unanimously, with the understanding that a copy would be sent by wire to the other Federal Reserve banks.

At this point Messrs. Thurston, Wyatt, Goldenweiser, Smead, Parry, Dreibelbis and Thomas left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

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The minutes of the two meetings of the Board of Governors of the Federal Reserve System held on September 12, 1939, were approved unanimously.

Memorandum dated September 8, 1939, from Mr. Paulger, Chief of the Division of Examinations, recommending, with the concurrence of the Office of the Secretary, that John J. Sowers, a page in the Office of the Secretary, be transferred to the Division of Examinations as a stenographer, with salary at the rate of \$1,380 per annum, effective September 16, 1939.

Approved unanimously.

Memorandum dated September 9, 1939, from Mr. Morrill, recommending that, for the reasons stated in the memorandum, Mr. William Henry Russell be appointed assistant gardener at a salary of \$1,200 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.

Approved unanimously.

Letter to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of Boston, made as of July 28, 1939, by the Board's examiners, a copy of the report of examination was left for your information and the information of the other directors and a copy was also furnished President Young. After the report of examination has received the consideration of the Board of Directors of the Federal

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"Reserve Bank, the Board will appreciate advice as to any action taken or to be taken with respect thereto as well as with respect to any other significant matters which may have been discussed by the examiners with the management during the course of examination."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

Donald H. Anderson
Vice Chairman.