A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 15, 1939, at 8:45 a. m.

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

Mr. Morrill, 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. Dreibelbis, Assistant General Counsel
Mr. Morse, Senior Economist in the Division of Research and Statistics

Mr. Ransom stated that late yesterday afternoon the Secretary of the Treasury called him on the telephone and expressed strong dissatisfaction over the manner in which the Federal Reserve Bank of New York had released information relating to the exchange rate on sterling which had been received by the Reserve Bank from the Bank of England in the early afternoon. As near as he could ascertain, Mr. Ransom said, there was a decline in the rate of sterling exchange in New York earlier in the week and yesterday Mr. Lochhead in the Treasury talked to Mr. Knoke in New York and suggested that he call the Bank of England, which Mr. Knoke did and received advice that the Bank of England was willing to purchase from Americans pre-war holdings of sterling or the proceeds of trade at $4.02, that the question then came up whether this information should not be given to the market and Mr. Knoke not knowing whether they had authority to give it to the market called the Bank of England again which suggested that Mr. Knoke drop a "hint to the market" of the policy of the Bank, that after Mr. Knoke had received from his secretary a transcript of the conversation with the Bank of England he dictated a memorandum which he sent to Robert F. Loree, Vice President in the Foreign Department of the Guaranty Trust Company, who is chairman of the foreign exchange committee recently organized by Mr. Harrison, President of the Federal Reserve Bank of New York. This apparently was shortly before 2:00 o'clock, Mr. Ransom said, and Mr. Knoke called Mr. Loree and upon finding that he was out left a request that he call. Mr. Knoke then called the Treasury and advised Mr. Lochhead what he had done, that about 2:00 o'clock Mr. Loree talked with Mr. Knoke, that thereafter Mr. Loree apparently called the members of his committee and one of them gave the information to Dow-Jones who called the Federal Reserve Bank of New York to confirm the information and upon confirming it put it on the ticker at about 2:40 p.m. so that the information was available to certain private individuals for approximately three-quarters of an hour before it was made public generally and that during that time the rate on sterling went up substantially.

Mr. Ransom made the further statement that he had talked over the telephone with Mr. Harrison last night and with Messrs. Knoke and Harrison this morning in an effort to learn the exact details of the matter and that they were now engaged in ascertaining what the exact facts of the situation were and that he (Mr. Ransom) was going to the Treasury Department to confer with the Secretary regarding the matter. Mr. Ransom also said that the Secretary had reported the matter to the President who suggested that the Secretary communicate with the Board of Governors and asked that a full investigation be made of the matter by the Treasury and the Board.

At 9:00 a.m. the meeting recessed and Messrs. Ransom, Goldenweiser, Morrill and Morse went to the Treasury. Upon their return at 9:40 a.m. the meeting reconvened with the same attendance as at the earlier session, except that Merle Cochran, who is succeeding Mr. Lochhead as Assistant to the Secretary, was also present.

Mr. Ransom reported that at the conference at the Treasury the Secretary had presented two questions for consideration by the Board, first, whether the Treasury or the Board of Governors, or both, should make some kind of statement to the press this morning which would say in effect that steps have been taken to see that the situation which occurred yesterday would not happen again and, secondly, what steps should be taken to prevent a recurrence of a similar incident in the future. Mr. Ransom said that the Secretary of the Treasury was concerned that there was such a lapse of time between the time the information received from the Bank of England reached official sources and the time it reached the market and that he wanted to see that it does not occur again and that the necessary mechanism to keep it from occurring again is set up. Mr. Ransom added that he said to the Secretary that it would be helpful to him to know just what Mr. Loree's committee was supposed to do and that in that connection the Secretary of the Treasury read an excerpt from a record of a meeting in his office on April 13, 1939, at which Mr. Harrison was present. At Mr. Ransom's request, Mr. Morrill read the excerpt which contained a statement by Mr. Harrison at that meeting of the purpose of the foreign exchange committee. A copy of the excerpt has been placed in the Board's files.

Mr. Ransom then stated that the Secretary had suggested, and that he (Mr. Ransom) had concurred in the suggestion, that Mr. Cochran come over and review the situation, as it developed yesterday from the point of view of the Treasury, as an aid to the Board in reaching a decision on the questions presented by the Secretary on which he had requested an answer by 11:30 this morning.

During a discussion of the incident, Mr. Szymczak reported a telephone conversation which he had just had with Mr. Harrison in which Mr. Harrison stated that in checking his records he found that on August 24, 1939, he telephoned Mr. Hanes and told him that he (Mr. Harrison) had arranged to appoint a foreign exchange committee in New York consisting of representatives through whom he could operate with the market, that he wanted a committee that he could contact and which could come to him with matters which he could relay on to Washington, that he had explained the purpose of the committee to Mr. Hanes who said he thought that was fine.

Mr. Ransom said that it appeared to be the impression of the people at the Treasury that the committee was one which would act only in a consulting capacity and that it was not supposed to be a committee of action.

Mr. Cochran then made substantially the following statement:

> We should begin with night before last. We saw sterling weakening on the New York market a little below \$4.02. Nothing was done about it then. Yesterday morning when we came in and saw it down around \$3.97½ we talked about it and wondered whether actual sales were being made and what the situation was. After we had watched it sink a little lower, Lochhead called Knoke and asked if he had any information. When Knoke did not, Lochhead said that he should call the Bank of England at once and find out what the situation was and let the Treasury know what was going on in our market. When Knoke called back around 11:00 o'clock, he had talked to the Bank of England and said they were willing to purchase American holdings of sterling - pre-war holdings of sterling or the proceeds of trade with the Empire - at \$4.02. Lochhead made the point with Knoke that our market did not know about that. It was 12:50 p.m. according to our records in the exchange office when Knoke called back again and I took the telephone as soon as I could and Knoke started out and said "here's a statement" - and started to read - "that I have just dictated and sent to Bob Loree." He read the statement that was to the effect that on the two categories of sterling, Americans could get sterling at \$4.02 and he said this could be released. He said he had already dictated a memorandum and sent it over to Loree and before our conversation ended we were cut off. Lochhead had talked to the Secretary and checking it later I found that the Secretary had taken the line away. Checking up on the time schedule that Knoke gave us later in the afternoon, we find that he had gotten the information from the Bank of England about 1:25 p.m. - 12:25 our time - and we got it at 12:50 and then he did not get any action

back from Loree until 2:00 o'clock - 1:00 o'clock our time. It did not appear on the ticker until fifty minutes later and they say in New York forty minutes later. We cannot say that exactly at 1:50 it appeared on our ticker because they do not list the hour. In the interim the rise in sterling took place from around $3.77 to $3.95. Our understanding was that Loree came back from lunch - he was out when the message was sent to him - and when he came back and found the memorandum he telephoned the members of his committee but it didn't appear on the ticker until fifty minutes later.

During a discussion which was prompted by an inquiry made by Mr. McKee as to why the information was not released following Mr. Knoke's first telephone conversation with the Bank of England, Mr. Ransom stated that between the first and second calls made by Mr. Knoke, the Treasury was trying to get the British Treasury and, as Mr. Cochran had explained during the conference at the Treasury, England was at war and it was not possible to get these things transmitted promptly, that the information given to Mr. Knoke was more a statement of position rather than that it could release it as a policy for the day and it was only on the noon call that it became subject to release.

Mr. Cochran said the privilege to release was given in the second call, that the difficulty came, as nearly as he could tell from the conversation with Mr. Butterworth, who is the diplomatic secretary in London on financial matters, from the fact that in the morning more complete information was not given because the bank officials were meeting with the Chancellor of the Exchequer. Mr. Ransom stated that, as he understood it, the Secretary was going to make a request of the British Treasury that such information in the future, to the best of the British Treasury's ability, be sent direct to the Treasury in Washington.

There was also a discussion of what, if any, damage was done by the incident and Mr. Cochran stated that anyone who sold sterling yesterday at a price below $4.02 when they could have received that figure was damaged.

Mr. Ransom stated that at the moment the important question for the Board was what, if anything, we could say to the Secretary that would be helpful in avoiding a recurrence of this kind and that the question of a public statement should be discussed by the Board.

Mr. McKee suggested that some responsibility rested on the Bank of England for not being definite during the telephone conversations and Mr. Cochran said the bank had apologized and said they were short handed, and that Mr. Butterworth had advised that communications were being slowed up very materially, that the British felt badly about the matter and that they were trying to hold the tripartite agreement together more on an information basis than on any other basis.

During a discussion of whether a statement should be issued, Mr. Cochran expressed the opinion that the less said to the press about the matter the better it would be and that, if it were felt that a statement was necessary, an informal statement would be much easier than a formal one.

At 10:25 a.m. Mr. Cochran left the meeting.

At 10:35 a.m. Mr. Ransom talked to Mr. Harrison and the latter reviewed the discussion which he had had on August 24th with Mr. Hanes regarding the foreign exchange committee.

Mr. Ransom inquired whether the committee was to be one for advice and counsel or a committee of action which would take responsibility for releasing news items. Mr. Harrison explained how on some occasions it had been necessary for him and Mr. Knoke, as late as 12:00 or 1:00 o'clock at night, to call twenty or thirty bankers on the telephone in order to give them information which the Treasury wanted them to have and that at that time he had stated to the Secretary that that arrangement was unworkable and that some day he would have to have a committee through which he could get information to the market, so that the foreign exchange committee was set up by having each group appoint its own representative through whom advice of anything of this sort could be given to the market without the necessity of the Federal Reserve bank telephoning to everyone interested, that since the committee was appointed it had been trying to work out ways by which commercial transactions could be handled with Europe and at the same time discourage speculative transactions, and that when Mr. Knoke got word from the Bank of England that he could drop a "hint to the market" that the Bank was still buying sterling at $4.02

from Americans in legitimate commercial transactions, he thought the only way to do it was to use the committee and it did not occur to him to put it out on the ticker as a formal announcement. Mr. Harrison added that before anything was done Mr. Knoke had two talks with the Treasury; one with the Secretary, and one with Mr. Lochhead, and that at that time the Secretary appeared to be more concerned about the British action than he was about the action of the New York bank.

After some further discussion of the details of the situation, Mr. Ransom stated that the Secretary of the Treasury had in mind issuing a statement to the press regarding the matter, and that he, Mr. Ransom, did not think that was advisable. Mr. Harrison concurred and stated that the question was a two-fold one - placing the blame and avoiding a repetition. Mr. Ransom said the second point was for first consideration and that he felt sure that the New York bank was as anxious as the Treasury or anyone else to see that such a situation never occurred again and that Mr. Harrison's suggestions as to what could be done to be sure it would be avoided would be appreciated.

During the discussion of this point Mr. Ransom inquired whether it would avoid the possibility of the same thing occurring again if some mechanism were worked out between the New York bank and the Treasury by which as soon as information arrived on this side, either at the bank or at the Treasury, the Treasury would have the decision as to the time and manner in which it would be released. Mr. Harrison agreed and said he would be perfectly satisfied to have the Treasury do it that way.

At the end of the conversation Mr. Ransom summarized it and stated that it appeared that he and Mr. Harrison were in agreement on two things: first, that no formal statement would help the situation unless there were factors in it that we knew nothing about at the moment, and that, second, the first question for decision was one of being sure that the same thing did not happen again and that whenever information of this nature reached the Treasury in the future, either directly or through the bank, the Treasury should determine how and when it was to be released. Mr. Harrison stated that that was perfectly agreeable to him, and the conversation was concluded with a further statement by him that he did not know what the status of the thing was, or who was investigating it, or to whom the New York bank was to report, that he had discussed it with the Secretary and with Mr. Bailie, and then with Mr. Ransom, representing the Board, that he, Mr. Harrison, was willing to take full responsibility and to make a record that showed exactly what happened, that it would take some time to prepare a careful record and that in the meantime he thought the thing to do was to let the incident blow over with as little disturbance as possible.

Consideration was then given to the answers to be given by the Board to the two questions raised by the Secretary and the following conclusions were reached:

First, that the Board did not see the necessity or advisability of a formal statement on anything which had occurred in connection with the incident as it was thought such a statement would place undue importance upon it.

Second, that if, for reasons best known to the Secretary, it was his conclusion that he would have to issue a formal statement, we would be glad to cooperate and be of what help we could in the preparation of it, and that the question whether we would join in making the statement would depend upon what the statement was.

Third, that, if he felt he could escape the necessity for issuing a formal statement, which the Board hoped would be the case, but still felt that he would have to say something to the press, it seemed to the Board to be most advisable for Mr. Duffield to talk informally to the newspaper reporters who were complaining that they had been scooped yesterday and explain that this was a technical matter that had occurred in the excitement of a war period and that they could be assured that it would not happen again and that they would be given promptly any information that the Treasury had for release in the future.

Fourth, that with respect to what might be done to prevent a recurrence of the incident, the Board would suggest that there be a working understanding between the Federal Reserve Bank of New York and the Treasury, that any and all information of this kind which reaches the Treasury or the bank should be released only in a manner and at a time determined by the Treasury, which would put the responsibility squarely on the Treasury.

Fifth, that Mr. Ransom should advise the Secretary that the Board was asking the New York bank for a full report which would be discussed with the Secretary when completed, it being understood that the New York bank would be requested to submit to the Board the same report that it submits to the Treasury and at the same time.

Sixth, that Mr. Ransom should say that if there were any matters at any time between the Treasury and the Federal Reserve Bank of New York relating to fiscal agency matters which the Treasury or the Federal Reserve bank wanted to discuss with the Board, it would be glad to discuss them and be as helpful as possible.

At 11:25 a.m. the meeting recessed and Messrs. Ransom, Morrill, Goldenweiser and Morse went to the Treasury for a further conference with the Secretary. They returned at 12:00 noon and the meeting reconvened with the same attendance as at the earlier sessions.

Mr. Ransom reported that he had advised the Secretary in accordance with the decisions reached by the Board, that it was agreed that no formal statement should be issued, but that the Secretary and some members of his staff felt a letter would have to be written to the New York bank as to what the procedure should be in the future. It was decided, Mr. Ransom said, that Mr. Duffield should handle the matter with the press in as casual a way as possible and say that they could be assured that whenever the Treasury had information to release in the future the press would get it as soon as anyone else, that Mr.

Duffield should advise Mr. Thurston as to what he said to the press, and that Mr. Thurston should refer any inquiries regarding the matter to Mr. Duffield and tell the Federal Reserve Bank of New York what had been said to the press.

Mr. Ransom added that the Secretary had offered the comment that he could not ask for a more cooperative statement than was made by Mr. Ransom and that it was most helpful.

During Mr. Ransom's report Messrs. Bethea and Vest joined the meeting and at the conclusion of Mr. Ransom's statement Messrs. Goldenweiser and Morse withdrew.

Consideration was then given to advices which had been received by the Board from Federal Reserve banks with respect to action by the board of directors of the banks on discount rates.

> Unanimous approval was given to telegrams to Messrs. Young, President of the Federal Reserve Bank of Boston, Kimball, Secretary of the Federal Reserve Bank of New York, Dillard, Secretary of the Federal Reserve Bank of Chicago, and Hale, Secretary of the Federal Reserve Bank of San Francisco, advising of approval by the Board of the establishment without change at the Federal Reserve Bank of San Francisco on September 12, at the Federal Reserve Banks of New York and Chicago on September 14, and the Federal Reserve Bank of Boston on September 15, of the rates of discount and purchase in the banks' existing schedules.

> Unanimous approval was also given to telegrams to Messrs. Post, Secretary of the Federal Reserve Bank of Philadelphia, Leach, President of the Federal Reserve Bank of Richmond, and Powell, Secretary of the Federal

Reserve Bank of Minneapolis, advising of approval by the Board of the establishment without change at the Federal Reserve Banks of Richmond and Minneapolis on September 14 and at the Federal Reserve Bank of Philadelphia on September 15, of the rates of discount and purchase in the banks' existing schedules except that the Board approves a rate of $1\frac{1}{2}$ per cent on advances to member and nonmember banks under the last paragraph of section 13 of the Federal Reserve Act, effective September 16, 1939.

Unanimous approval was also given to a telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the Federal Reserve Bank of St. Louis of the rates of discount and purchase in the bank's existing schedule except that the Board approves a rate of 1 per cent on advances to member and nonmember banks under the last paragraph of section 13 of the Federal Reserve Act, effective September 16, 1939.

Reference was also made to telegrams received from the Federal Reserve Banks of Cleveland, Kansas City and Dallas with respect to rates established by those banks on advances under the last paragraph of section 13 of the Federal Reserve Act and Messrs. Bethea and Vest were requested to report on these telegrams to the Board at a meeting to be held this afternoon.

At 12:50 p.m. Mr. Ransom talked with Mr. Harrison and told him what had occurred at the Treasury with respect to the sterling foreign exchange matter. Mr. Harrison stated that he was grateful for the manner in which it had been handled. It was understood during the conversation that Mr. Harrison would prepare a full report on the incident which he would submit jointly to the Board and to the Treasury.

(Secretary's Note: Subsequently Mr. Ransom reported that just before 4:30 p.m. today, Mrs. Klotz, Assistant to the Secretary of the Treasury, called to say that the Secretary left the Cabinet meeting and went directly to his farm, but that before leaving Washington had asked her to call and say that both the President and he hoped that the Board would make an investigation of the individual transactions during the hour and ten minutes involved in the matter that had been the subject of discussion between the Treasury and the Board earlier in the day. Mr. Ransom said he asked if she could tell him whether this referred to the banks which had officers who were members of the foreign exchange committee or to all New York banks and she replied that she did not know, that she was just passing on the message as it came to her, but that she assumed that that was all they had in mind.

Mr. Ransom stated further that at 4:33 p.m. today he called Mr. Harrison and reported the conversation with Mrs. Klotz and that Mr. Harrison replied that he would like to get a clear understanding of exactly what was wanted and suggested that he could come to Washington on the midnight train for the purpose of discussing this with the Treasury and ourselves, whereupon Mr. Ransom told him that he knew the Secretary would not be in Washington today and Mr. Harrison said he knew that Mr. Bailie would not be here, and it was concluded that it would be better for Mr. Harrison to wait until Monday when he would be in Washington in connection with the meeting of the Federal Open Market Committee and it could be ascertained from the Secretary of the Treasury something more definite as to what was wanted.

During the afternoon today Mr. Thurston reported that Mr. Duffield had called him and said that when he talked to the press he had assured the press representatives that he was sorry about the incident that occurred yesterday, and that the Treasury would see to it that they were given such information in the future at the Treasury as promptly as possible, that none of the press representatives asked any questions, and that no one appeared to be interested in it. Mr. Thurston said that he had advised Mr. Knoke of this conversation.)

At 1:10 p.m. the meeting recessed and reconvened at 3:10 with Messrs. Ransom, Szymczak, McKee, Davis, Draper, Morrill, Bethea, Carpenter, Thurston, Wyatt, Smead and Vest present.

It was stated that Mr. Piser had experienced considerable delay in getting market reports throughout the day over the telephone from the Federal Reserve Bank of New York and it was suggested that the Board give consideration to the installation of an additional wire.

After discussion, upon motion by Mr. Szymczak, the installation of the additional wire between the Board's switchboard and the switchboard of the Federal Reserve Bank of New York was approved unanimously, with the understanding that it would be discontinued as soon as the Secretary's office determined that the need therefor had passed and that the Secretary's office would ascertain from the New York bank whether it was willing to pay half of the cost of the wire which is the arrangement on the two existing direct wires. It was also understood that the item Telephone and Telegraph in the Board's General Budget for 1939 would be increased in an amount sufficient to defray the cost of such wire.

Reference was then made to a memorandum prepared by Mr. Vest under date of September 8, 1939, and sent to the members of the Board, with which he submitted a revised draft of a proposed Regulation G setting forth the terms under which noncash items would be collected by the Federal Reserve banks. The memorandum stated that the draft had been revised in the light of suggestions received from the Federal Reserve banks, that the issuance of the regulation would not result in any change in the existing practices of the banks in collecting noncash items and would make no important changes in the terms and conditions under which such collections are now handled, that the regulation would consist principally of statements of the legal terms and conditions upon which the Federal Reserve banks accept such items for collections, and that most of its provisions were taken from the existing noncash collection circulars of the Federal Reserve banks, with some additions that are similar to provisions in Regulation J. Mr. Wyatt stated that the principal purpose of the regulation was to have it published in the Federal Register and serve as notice to the public of the terms upon which such items will be collected by the Federal Reserve banks. He also stated that the only controversial question was whether or not the regulation should include a paragraph which would authorize the Federal Reserve banks to accept from individual drawees in remittance for noncash items, bank drafts, officers' checks and certified checks, that five of the Reserve banks favored the omission of the paragraph, three favored its inclusion, while four made no comment, and that, in view of this fact, and especially because the Standing Committee on Collections was definitely opposed to its inclusion, the revised draft of the regulation submitted did not include the paragraph. Messrs. Wyatt and Smead stated that they concurred in the opinion that the paragraph should not be included.

At the conclusion of a discussion of the matter, Mr. Szymczak moved that the following letter be sent to the Federal Reserve banks:

"With its letter of May 3, 1939, R-456, the Board submitted a draft of a proposed regulation governing the collection of noncash items. This draft of the regulation has been revised in some particulars in the light of suggestions received from the Federal Reserve banks pursuant to the Board's letter and there is enclosed herewith a copy of the revised form of the regulation. The regulation in the form enclosed will be adopted by the Board when drafts of the noncash collection circulars of the Federal Reserve banks have been received and reviewed so that an effective date for the revised regulation may be fixed. The new regulation will be known as Regulation G.

"In this connection it is noted that the report of the Standing Committee on Collections dated April 22, 1939, states (Paragraph 60) that: 'Revised uniform paragraphs for circulars to be issued by the Federal Reserve banks, relating to the collection of noncash items, will be submitted by the Standing Committee on Collections when the text of the new regulation has been determined.' It is understood, accordingly, that the Standing Committee on Collections will give further consideration to this subject before changes are made in the noncash collection circulars of the Federal Reserve banks designed to bring them into conformity with the new regulation. Copies of letters which the Board addressed yesterday and today to the Chairman of the Presidents' Conference regarding this matter are enclosed herewith for your information.

"You are also advised that the Board of Governors has approved recommendation No. 18 contained in the report of the Standing Committee on Collections dated January 14, 1939, and concurred in by the Presidents' Conference 'that each Federal Reserve bank, whenever possible, should endorse or stamp all municipal warrants handled by it as noncash items in such manner as to indicate the agency status of the Federal Reserve bank, or should attach to such municipal warrants notices indicating such status'. Action upon this particular recommendation has heretofore been deferred pending consideration of the new regulation governing the collection of noncash items."

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

Reference was then made to a telegram received from Mr. Fleming, President of the Federal Reserve Bank of Cleveland, under date of September 14, 1939, stating that subject to the approval by the Board the bank had established without change the existing schedule of rates of discount and purchase, except that action was taken authorizing the discount committee to make advances under the last paragraph of section 13 of the Federal Reserve Act to member banks for periods of ninety days and to nonmember banks for periods of fifteen days. All of the members of the Board expressed the opinion that, while it was not the function of the Board in these circumstances to pass upon the period of time for which advances of this kind might be made, it was inadvisable for the banks to discriminate between member and nonmember banks and that whatever period was decided upon should apply in both instances.

At the conclusion of the discussion, Mr. Morrill was requested to advise Mr. Fleming by telephone of the Board's position and suggest that the matter be reconsidered by the bank.

The following drafts of telegrams to Federal Reserve banks relating to discount rates established by the banks were then submitted and approved unanimously:

Telegram to Mr. McLarin, Vice President of the Federal Reserve Bank of Atlanta, reading as follows:

"Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of rates of discount and purchase in bank's existing schedule, "advice of which was contained in your telegram dated September 15, except that Board approves rate of 1% on advances to member banks under paragraph 8 of section 13 of Federal Reserve Act secured by bonds, notes, certificates of indebtedness or Treasury bills of the United States, or by Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or bonds issued under the provisions of subsection (c) of section 4 of Home Owners' Loan Act of 1933, as amended; and Board approves rate of 1% on advances to member and nonmember banks under last paragraph of section 13 of Federal Reserve Act; both rates to be effective September 16, 1939."

Telegram to Mr. Leedy, Secretary of the Federal Reserve Bank of Kansas City, and telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"Board of Governors of the Federal Reserve System approves establishment by your bank, without change, of rates of discount and purchase in bank's existing schedule, advice of which was contained in your telegram dated September 14, except that Board approves rate of 1% on advances to member banks under paragraph 8 of section 13 of Federal Reserve Act secured by bonds, notes, certificates of indebtedness or Treasury bills of the United States, or by Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act, or bonds issued under the provisions of subsection (c) of section 4 of Home Owners' Loan Act of 1933, as amended; and Board approves rate of 1% on advances to member and nonmember banks under last paragraph of section 13 of Federal Reserve Act; both rates to be effective September 16, 1939."

Mr. McKee stated that it was now found that it would not be possible for Mr. Paulger to go to Salt Lake City to attend the annual convention of the National Association of Supervisors of State Banks on September 20-22 and that it was his recommendation that Mr. Smead go instead.

Mr. McKee's recommendation was approved unanimously.

Mr. McKee referred to the request made of him at the meeting of the Board on June 27, 1939, that he discuss further with the Chairman of the Federal Deposit Insurance Corporation the question of reducing the maximum rate of interest which may be paid by insured banks on time and savings deposits and suggested that in view of the changed money market situation that matter be dropped for the time being.

Mr. McKee's suggestion was approved unanimously.

At this point Messrs. Thurston, Wyatt, Smead and Vest 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 September 13, 1939, were approved unanimously.

Memorandum dated September 12, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Bruce Waybur be appointed as an economic assistant in the Division, with salary at the rate of $2,000 per annum, effective as of the date upon which he enters upon the performance of his duties.

Approved unanimously.

Memorandum dated September 11, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Miss Joanna Eakin be appointed on a temporary basis for a period of three months as a secretary in the Division, with salary at the rate of $150 per month, effective as of the date upon which she enters upon the performance of her duties. The memorandum stated that in view of the fact that Miss Eakin would probably be recommended for a permanent appointment at the expiration of her temporary appointment, it was suggested that she now be permitted to become a member of the Retirement System of the Federal Reserve Banks.

Approved unanimously.

Memorandum dated September 12, 1939, from Mr. Morrill recommending that, for the reason stated in the memorandum, Stewart Thorn be appointed as a page in the Office of the Secretary, with salary at the rate of $1,080 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. Young, Chairman of the Federal Reserve Bank of New York, reading as follows:

"At the completion of the examination of the Federal Reserve Bank of New York, made as of June 17, 1939, by the Board's examiners, Mr. Koppang, the examiner in charge, met with the Audit Committee of Directors pursuant to the suggestion contained in your letter of July 21, "1938, to discuss matters developed by the examination. 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 Harrison, who attended the conference. After the report of examination has received the consideration of the Board of Directors of the Federal Reserve Bank, the Board will appreciate advice as to any action taken or to be taken with respect thereto."

Approved unanimously.

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

"This refers to your letters of May 19, 1939, and September 1, 1939, and their enclosures, relating to an inquiry from Mr. C. J. O'Neill, Vice President and Trust Officer, National Bank and Trust Company at Charlottesville, Charlottesville, Virginia, with respect to whether the investment of trust funds by his bank in real estate mortgage loans acquired from City Mortgage and Insurance Company, Charlottesville, Virginia, is prohibited by the following provisions of section 11(a) of Regulation F:

'Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, * * * .'

"A reply to your earlier letter was withheld because consideration of the inquiries mentioned in our acknowledgment of May 24, 1939, led to a study of the advisability of amendments to the pertinent provisions of Regulation F. That subject is still being explored but, in view of your recent letter, it appears that advice concerning Mr. O'Neill's inquiry should not be longer delayed.

"The facts presented by Mr. O'Neill show that of the 568 outstanding shares of stock of City Mortgage and Insurance Company, 15 shares are owned by an officer and director of the bank, 97 shares are owned by 6 other directors, 4 shares are owned by two other officers, and 190 shares are owned by the son of one of the directors. Mr. O'Neill emphasizes the fact that only 2 of the 7 directors of City Mortgage and Insurance Company are directors of the bank and that only 7 of the 17 directors of the bank own stock "of City Mortgage and Insurance Company. He also apparently makes some point of the fact that such directors have a considerably greater investment in stock of the bank than in stock of City Mortgage and Insurance Company.

"For the reasons stated in its letter of August 4, 1937 (S-24), discussing a similar inquiry, the Board feels that, as a general proposition, it is undesirable for it to rule upon specific cases of this nature. However, it appears that, after careful investigation of the facts and discussion of the matter with Mr. O'Neill, the national bank examiners examining the bank and you and your counsel have reached the conclusion that City Mortgage and Insurance Company is an interest of officers and directors of the bank within the meaning of the above-quoted provisions of the regulation and it may be stated that, upon the basis of the information before it, the Board is not disposed to question that conclusion.

"It appears from your counsel's opinion that with respect to certain fiduciary accounts administered by the bank the argument has been made that the beneficiaries are so related to some of the directors of the bank that the directors' peculiar personal interests in the beneficiaries counterbalance their interests in City Mortgage and Insurance Company. The Board concurs in your counsel's conclusion that the existence of such relationships does not affect the applicability of the regulation.

"In connection with the same accounts, it is pointed out that the instruments creating them contain provisions designed to authorize investments in property acquired from City Mortgage and Insurance Company. The provisions of the instruments are material only by reason of the following footnote appended to the above-quoted provisions of the regulation:

> 'This requirement shall not be deemed to prohibit investments which are expressly required by the instrument creating the trust or by court order.'

As stated by your counsel, it is clear that the instruments in question do not <u>expressly</u> <u>require</u> investments in property acquired from City Mortgage and Insurance Company."

Approved unanimously.

Letter to Mr. A. H. McKeirnan, President of The Longmont National Bank, Longmont, Colorado, reading as follows:

"Your letter of August 11, 1939, addressed to the Comptroller of the Currency has been referred to the Board of Governors of the Federal Reserve System for reply. You request information as to whether your bank may pay interest on a savings account after the death of the depositor.

"Under the definition of the term 'savings deposit' contained in subsection 1(e) of the Board's Regulation Q, a copy of which is enclosed herewith, such a deposit may consist of funds, the entire beneficial interest in which is held by one or more individuals or by a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit. Accordingly, a savings deposit may continue to be classified as such after the death of the depositor if the entire beneficial interest is then held by individuals or organizations of the kinds mentioned in the Regulation. Likewise, a deposit in the name of an executor or administrator may be classified as a savings deposit if it meets the other requirements of the definition of savings deposits in the regulation and the entire beneficial interest is held by individuals or organizations of the kinds mentioned. Even where it is not known whether the entire beneficial interest is held by individuals or organizations of the kinds described, the Board of Governors will offer no objection, for a reasonable time after the death of the depositor, to the continued classification as a savings deposit of a deposit which has theretofore been properly classified as such.

"If you have any further questions regarding this matter, or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of Kansas City."

Approved unanimously.

Letter to Mr. Leedy, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letters of August 7, 1939 and August 31, 1939, regarding the question raised by Buffett & Company, Omaha, Nebraska, as to whether it 'transacts a business in securities through the medium of a member of a national securities exchange' within the meaning of Regulation T.

"As indicated in the Board's letter (X-9880; Reg. T-54) of April 28, 1937, and the ruling which accompanied "the Board's letter (S-123; Reg. T-80) of October 27, 1938, to which you refer, the question here presented necessarily must turn upon all the relevant facts involved in the particular case.

"The facts presented by Buffett & Company, however, apparently raise for interpretation the question whether a broker or dealer would be prevented from being one who 'transacts a business in securities through the medium of a member' if the business so transacted is not the major business of the firm, the business so transacted in this particular case being said by the firm to constitute approximately 10 per cent of its total business.

"It is to be noted that the phrase does not require that a majority of the broker's business be transacted through the medium of a member, or that the business be 'principally' or 'chiefly' so conducted. The omission of any such requirement indicates an intention to exclude such questions of degree from present consideration and to narrow the problem down to the simple question whether 'a business' in securities is so transacted. It seems clear that a firm could be transacting 'a business' in securities through the medium of a member even though such business constituted no more than 10 per cent of the total securities business of the firm.

"Accordingly, it is the view of the Board in the present case that the facts presented do not exempt the firm from the application of the phrase in question, and hence do not exempt it from Regulation T."

Approved unanimously.

Mr. Morrill recommended that the Board authorize the purchase of a Dictaphone Telecord machine at a cost of $967.50 and a transcribing machine at a cost of $184.50 to be used in making records of important telephone conversations.

The recommendation was approved unanimously with the understanding that the cost would be added to the appropriate item in the budget of the Secretary's office.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: Ronald Ransom
Vice Chairman.