

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 13, 1939, at 10:45 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser (latter part of meeting)
Mr. Dreibelbis, Assistant General Counsel

Chairman Eccles referred to the informal report which he made to the Board recently of a talk which the Secretary of the Treasury had with him regarding the establishment by the French and British Governments of accounts with the Federal Reserve Bank of New York. He said that the Secretary had advised him on Wednesday, October 11, that the Treasury was about ready to request the New York bank to establish an account for the French Government, that the Secretary preferred to handle the account as a fiscal agency matter, and that he would be glad to give the Board any information it desired. Chairman Eccles stated that he had called to the attention of the Secretary the provisions of Section 14(g) of the Federal Reserve Act which place considerable responsibility on the Board in connection with foreign relationships and transactions of the Federal Reserve Banks and advised

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the Secretary that it was not merely a question of the Board having knowledge or information concerning this matter, but a question of its statutory responsibility, that it was necessary that the Board be in a position to discharge that responsibility, and that it seemed to him that the Secretary would be just as interested as the Board in avoiding any Congressional criticism in the future as a result of the failure of the Board to be advised or informed regarding the matter. Chairman Eccles said that the Secretary agreed and stated that there was nothing that he would not be glad to advise the Board with reference to this matter, although he expected that the matter would be treated with the greatest confidence. The Chairman stated that he had advised the Secretary that it would be very difficult for the Board to anticipate information that it might want and that it would have to rely upon the cooperation of the Treasury and that the Secretary replied that some procedure along that line could be worked out. Chairman Eccles stated that in discussing the matter with Mr. Harrison the latter suggested that a direct relationship be worked out between the Treasury and the Board; that in discussing the matter with Mr. Harrison last week in New York they had talked about whether such account need be opened under the fiscal agency provision of the Federal Reserve Act and, if so, whether Mr. Harrison was under obligation to keep the Board advised; that Mr. Harrison stated that it was the opinion of Mr. Logan, General Counsel for the Federal Reserve Bank

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of New York, that the account could be established only under the fiscal agency provision; and that it was Mr. Harrison's contention that the New York bank did not have to report to the Board with reference to fiscal agency operations.

At this point Mr. Goldenweiser joined the meeting.

The Chairman then said that he had requested Mr. Dreibelbis to consider the matter; that Mr. Logan had called Mr. Dreibelbis on the telephone and reported Chairman Eccles' conversation; that when he (Chairman Eccles) had discussed the matter with the Secretary he had told the Secretary he would like to check the matter with Mr. Dreibelbis; and that the Secretary had said that he thought it would be well for Mr. Dreibelbis to discuss the matter with Mr. Foley, General Counsel of the Treasury Department. He said that the Secretary had then called Mr. Foley and requested him to cooperate with Mr. Dreibelbis. Chairman Eccles then asked Mr. Dreibelbis to outline the discussions which he had had in connection with the matter.

Mr. Dreibelbis stated that before his conference with Mr. Foley Mr. Logan had called him on the telephone and had talked about handling the matter on a fiscal agency basis and had said that there was precedent for handling the matter in that manner. Mr. Dreibelbis said that he inquired of Mr. Logan during the discussion whether what he (Mr. Logan) had in mind was the question of getting authority from the Board if it should be handled on a fiscal agency basis or the question of the legality of handling it on that basis and that Mr.

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Logan stated that he was discussing the matter from the standpoint of the necessity of submitting it to the Board for approval; that Mr. Logan had before him at the time the Board's letter of December 29, 1936 (X-9774) from which it appeared that under the uniform procedure with respect to foreign relationships of the Federal Reserve banks set forth in that letter fiscal agency matters were not covered. Mr. Dreibelbis said that he suggested to Mr. Logan that he should keep in mind that the letter referred to had been prepared under entirely different circumstances and with no idea of any situation arising such as the present one, and that irrespective of the memorandum he would not be inclined to rely upon it as authority for this transaction.

Mr. Dreibelbis then stated that he discussed the matter on yesterday with Messrs. Foley and Bernstein, General Counsel and Assistant General Counsel, respectively, of the Treasury Department; that Mr. Foley explained what the Treasury had in mind and how they expected to handle the account; that it seemed obvious that the Treasury did not know that there was any other way to handle the matter; and that their decision was evidently based on what had been reported to them. Mr. Dreibelbis said that Mr. Foley had advised him that the Treasury contemplated setting up the account on a fiscal agency basis because it was important that information regarding the matter should be kept strictly confidential. Mr. Dreibelbis

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stated that he advised Mr. Foley that he thought there were other ways to handle the matter; that he wanted to cooperate fully in the matter but that he could not agree as a matter of law that if the account were handled as a fiscal agency matter that fact would put either the Board or the directors of the New York bank in a vacuum. Mr. Dreibelbis stated that Mr. Foley had understood from the Secretary that he was to discuss the mechanics of the matter and that the Secretary would then write a letter to Chairman Eccles giving him full information regarding the matter; that he had asked Mr. Foley if the Treasury contemplated that the Board would be kept advised currently after the transmission of such a letter; and that Mr. Foley had replied that he did not feel that he had authority to pass on that point. Mr. Dreibelbis stated that he advised Mr. Foley that he would discuss the matter with Chairman Eccles and advise him of any further developments. He then stated that he had since reviewed the precedents of 1917 for setting up accounts of this kind on a fiscal agency basis, but that the establishment of those accounts had been approved by the Board at that time. He referred also to an opinion written by the Board's General Counsel at that time, Mr. M. C. Elliott, which was parallel to the opinion of Mr. Wyatt and himself on what the Board's responsibilities were in connection with such accounts, and stated that at that time the Secretary of the Treasury had given instructions that copies of all correspondence with respect to such accounts be

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be furnished to the Federal Reserve Agents at all Federal Reserve banks. Mr. Dreibelbis added that the precedents referred to by Mr. Logan occurred when the United States Government was making loans to the Allies and the proceeds of such loans had been made available to the Allies through accounts in their names at the Federal Reserve Bank of New York established at the request of the Secretary of the Treasury and that the Board had passed a resolution authorizing the opening of such accounts.

Mr. McKee referred to the fact that the Board was charged with the responsibility of approving all relationships of Federal Reserve banks with foreign banks or bankers, and stated that he felt that the proposed accounts should be regarded as coming under the jurisdiction of the Board.

Mr. Dreibelbis stated that it would not be necessary for the New York bank to obtain the Board's authority to open an account if it could be established under the fiscal agency provision of the law, and that the reason why the question of authority arose in the present case was because of the unusual nature of the transaction. He said that, as a fiscal agency matter, the Board would have nothing to do with it from the standpoint of specific approval, but that the Board had certain responsibilities under its general supervisory powers over Federal Reserve banks which would include supervision of the fiscal agency department as a part of the bank.

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Mr. Ransom then referred to the Board's letter of December 29, 1936 (X-9774), and stated that so far as he knew this was the latest information on the subject of foreign relationships of Federal Reserve banks. He then raised the question whether, if the Board were advised that the Treasury desired the New York bank to establish a foreign relationship in connection with its duties to the Treasury as its fiscal agent, and were advised from time to time as to what the Federal Reserve Bank of New York was doing in connection with that foreign relationship, without objection from the Board, the sole question would not be whether that method of tacitly approving the relationship would be satisfactory to the Board, or whether the Board would prefer to have it handled in some other manner under which it would expressly approve or disapprove the relationship.

Mr. Davis stated that the question with which he was concerned was whether it was conceded that anything the Treasury labeled as a fiscal agency service thereby became a fiscal agency service, no matter what it might be, and Mr. Ransom said that, in his opinion, within limitations and if the Board did not object, a matter which the Treasury in agreement with the New York bank wanted to handle as a fiscal agency service might be so classed. Mr. Wyatt stated in this connection that whether it was or could be a fiscal agency relationship was a question of the scope of the law, and that the mere fact that the Treasury said it was did not make it a fiscal agency matter. Mr. Wyatt then referred to the authority expressly granted by the Federal Reserve Act

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to the Federal Reserve banks to act as fiscal agents for the Federal Home Loan Banks, Federal Intermediate Credit Banks, Home Owners Loan Corporation, National Agricultural Credit Corporations, and the Reconstruction Finance Corporation, and stated that he could not see how the instant case could be a fiscal agency relation under the law, inasmuch as all of the provisions of law regarding fiscal agent relationships contemplated acting for the United States Government or one of its instrumentalities and not for some foreign government.

Mr. Ransom stated that he was far more concerned with the long range view of the matter than anything else connected with it, that it was a foreign relationship which he thought might be opened up in any practical way which the Treasury and the Federal Reserve Bank of New York thought was legal, and that, when the Board had been advised, if it said nothing, it tacitly approved the action.

Mr. Davis stated that he did not believe this was a fiscal agency transaction.

Mr. Ransom stated that he had no personal opinion on the subject.

At this point Mr. Ransom stated that he would like to defer further consideration of the matter before the Board in order to receive Mr. Szymczak's report regarding the proposed appointment of a First Vice President at the Federal Reserve Bank of Atlanta, inasmuch as the board of directors of the Atlanta bank was in session and he had advised them that he would endeavor to communicate to them the Board's action by noon today.

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Mr. Szymczak then reported his discussion with the board of directors of the Federal Reserve Bank of Atlanta with respect to the proposed appointment of a First Vice President of the bank, and stated that the salaries and personnel committee of the bank had considered the matter and had reached the conclusion that it would not be advisable for the bank to appoint a man who was not now connected with the bank inasmuch as that would add to the official staff and expenses of operation of the bank, because they did not propose to remove from their official personnel any of the present officers, and that it did not appear necessary to have an additional officer in the bank. He stated that the majority of the directors felt that Mr. W. S. McLarin, who has been serving as a Vice President, should be appointed First Vice President and that his salary should be increased from \$9,500 to \$10,500.

Following a brief discussion with respect to the members of the official staff of the Atlanta bank, Mr. Szymczak moved that the Atlanta bank be advised that the Board will approve the appointment of Mr. W. S. McLarin, Jr. as First Vice President of the bank for the unexpired portion of the five-year term ending February 28, 1941, with salary at the rate of \$10,500 per annum, for the period October 13 to December 31, 1939, inclusive, and that the Board will also approve the payment of salary at the same rate to Mr. McLarin for the period January 1 to May 31, 1940, when such action has been taken by the board of directors.

Upon resuming the discussion with respect to the opening of an

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account with the French Government Mr. Draper inquired of Counsel how it was thought this particular situation could be worked out. Mr. Wyatt replied that the clearest way would be to have it handled through the Bank of France account with the Federal Reserve Bank of New York.

Mr. Draper then inquired whether the Federal Reserve Bank of New York would not advise the Board of the establishment of such account to which Chairman Eccles responded that the New York bank felt that any advice received by the Board should be from the Treasury and that the Treasury had not given the bank any authority or instructions to advise anyone with respect to the handling of fiscal agency matters. The Chairman stated that the Treasury had requested our view on the matter because it was their desire to cooperate, that they had advised that they would like to open the account on a fiscal agency basis, and that they had not asked the Board for its approval but had merely advised it of what they proposed to do, stating that if the Board had any suggestions they would be glad to receive them.

Mr. Ransom inquired whether the members of the Board could agree that the Board does not escape any responsibility whether the matter is handled through one route or the other, and stated that it seemed to him that in either case the Board had the same responsibility except that the method of informing the Board, as the Board is entitled by statute to be informed, was a matter for the decision

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of the Treasury. Mr. Ransom said that it appeared to him that the Treasury might conduct this transaction through the account with the Bank of France already on the books of the New York bank.

Mr. Draper stated that he thought we could avoid all criticism if we use the account already on the books of the New York bank and, at the request of the Secretary of the Treasury, keep confidential the governmental transactions in the account.

The Chairman stated that there was no more reason for believing that the Board would not have responsibility for the supervision of such an account if it were opened under the fiscal agency provision than if it were handled in another manner. He also said that he would like to be in position to say that the Board thought it should be done through the Bank of France account and in that case the Board would not need to take any action on the matter because the account is already established on the books of the New York bank.

Mr. Ransom stated that he thought it was extremely doubtful if a wholly persuasive argument could be made that the account could not be opened as a fiscal agency matter.

Chairman Eccles then suggested that Mr. Dreibelbis talk to Mr. Foley and report the discussion today, and advise him that the members of the Board feel that there is a grave question whether it is or should be treated as a fiscal agency matter, bearing in mind the possibility of public criticism unless the Treasury and the Reserve bank were prepared to follow the same procedure in regard to all

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nations, that it would seem to be stretching it pretty far to make it a fiscal agency matter, that there was real danger that it would be looked upon as the equivalent, if treated in this manner as a fiscal agency operation, of the Treasury acting as the agent for a purchasing corporation of the French Government, and that this might raise the question whether the Treasury would perform the same service for any other belligerent country. He suggested further that Mr. Dreibelbis point out that even if legally they could open the account as a fiscal agency matter that would not relieve the Board of Governors of its supervisory responsibility in relation to the New York bank.

He added that he would offer the suggestion that the preferable way to handle the matter would be the normal way, to which the Board would not have to give special approval because the account is already in existence.

The Chairman then stated that he thought the Board should ask Mr. Harrison to come to Washington to discuss the matter, but first he would like Counsel to consider the matter further in the light of the present discussion.

It was agreed that Mr. Dreibelbis should consult again with Mr. Foley this afternoon.

At this point Mr. Thurston left the meeting.

There were then presented telegrams to Mr. Young, President of the Federal Reserve Bank of Boston, Mr. Hays, Secretary of the Federal Reserve Bank of Cleveland, Mr. Leach, President of the Federal

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Reserve Bank of Richmond, Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, Messrs. Stewart and Powell, Secretaries of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, and Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board has approved the establishment without change by the Federal Reserve Bank of San Francisco on October 10, by the Federal Reserve Banks of Cleveland and Atlanta on October 11, by the Federal Reserve Banks of Richmond, St. Louis, Minneapolis and Kansas City on October 12, 1939, and by the Federal Reserve Banks of Boston and Dallas today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Reference was then made to the memorandum prepared by Mr. Piser, Senior Economist in the Division of Research and Statistics, under date of December 9, 1938, with respect to the Government Security Market and the System Open Market Account, consideration of which had been deferred at previous meetings until a meeting at which all of the members of the Board were present, and the Secretary was requested to arrange for a thorough review of the problem by the staff and a report to the Board at the earliest practicable date.

Mr. Goldenweiser stated that Mr. Upham, Deputy Comptroller

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of the Currency, had called him on the telephone with respect to the preparation by the Board of the manual of banking and business statistics which was to be a substitute for the statistical part of the Board's annual report, and stated that he thought it would be desirable to include in the manual statistics regarding national banks which could then be omitted from the annual report of the Comptroller of the Currency. Mr. Goldenweiser stated that he felt it was a desirable suggestion and that he had told Mr. Upham that he would discuss it with the Board.

Chairman Eccles stated that he thought it would be desirable to combine the statistics with respect to State member banks and national banks in one report.

Mr. Goldenweiser was requested to advise Mr. Upham that the Board was in agreement with his suggestion that the statistics of the Board and the Comptroller of the Currency be combined in the proposed manual.

Thereupon the meeting recessed and reconvened at 4:30 p.m. with the same attendance as at the morning session, except that Mr. Vest, Assistant General Counsel, was also present.

Chairman Eccles requested Mr. Dreibelbis to report to the Board his discussion this afternoon with Mr. Foley.

Mr. Dreibelbis stated that he had advised Mr. Foley that the Board had been discussing the matter during the course of the morning and that during the discussion some questions had arisen. He said

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that he had tried to allay any fear that the Board was trying to block the Treasury's plan with respect to opening the account and stated to Mr. Foley that he thought every one was in sympathy with the objective of the plan, which was to handle the funds through the Federal Reserve Bank of New York rather than through commercial banks. He said that he had advised Mr. Foley that a question had arisen during the discussion with respect to whether the matter was really a fiscal agency transaction, to which question was related the possibility of public criticism unless the Treasury and the Reserve bank were prepared to follow the procedure decided upon in regard to all nations. Mr. Dreibelbis stated that it was his impression that Mr. Foley had started off on the idea that the Treasury was opening the account on a fiscal agency basis because the Federal Reserve Bank of New York had advised that it could be done only in that way in order to confine knowledge regarding it to the necessary executive officers and employees, that he (Mr. Dreibelbis) had inquired whether the same purpose could not be accomplished in some other way, and that Mr. Foley had replied that the whole matter had been canvassed in the Treasury, that they had discussed all of the aspects of the matter which had been discussed by the Board this morning, that it was the desire of the Treasury to open the account as a fiscal agency operation, and that that was the only manner in which Mr. Foley had authority to discuss it. Mr. Dreibelbis stated that he had advised Mr. Foley that there had been a good deal of discussion among the members of the Board as to why this matter was

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considered a fiscal agency transaction, and that Mr. Foley had replied that the term "fiscal agent" was a very broad one with no limitations placed upon it in the Federal Reserve Act, and that a fiscal agency matter was really what the Treasury said it was. Mr. Foley, Mr. Dreibelbis said, then related other factors which had entered into the decision by the Treasury that it was a fiscal agency matter, among them being the Treasury's interest in the operations of the funds as related to its fiscal policies, its powers over foreign exchange, its stabilization powers and its powers under the Gold Reserve and Silver Purchase Acts. Mr. Dreibelbis stated that at this point in the discussion he again raised the general question with respect to the Board's responsibility on account of its general supervisory powers over the Federal Reserve banks and that Mr. Bernstein had stated that they did not apply to the Stabilization Account and that the present account was to be considered in the same category. He said that he advised Mr. Foley that the Board had not as yet taken any position in the matter. The discussion ended at this point, Mr. Dreibelbis said, and Mr. Foley requested that he be called on the telephone in the event the Board decided upon any action or if the matter was still being considered.

Chairman Eccles then stated that Mr. Harrison had called him on the telephone and, after discussing briefly another matter, had inquired with respect to this matter. The Chairman stated that he advised Mr. Harrison that he had talked to the Secretary about the matter on Wednesday, that the Board had been in session today

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discussing it, that it was not sure whether the account could or could not be established under the fiscal agency provision, and that he thought it would be well for Mr. Harrison and Mr. Logan to come to Washington tomorrow to meet with the Board at 9:00 a.m. He said that he thought that Mr. Dreibelbis should tell Mr. Foley that the Board had asked Messrs. Harrison and Logan to come to Washington to meet with the Board in the morning, and that it expected to be able by noon to be in a position to advise him of the views of the Board with reference to the matter, that the Board desired to work out some arrangement that would fully protect everyone concerned in the matter, and that it had as yet come to no conclusions in the matter.

Mr. Ransom then inquired of Mr. Dreibelbis as to Mr. Foley's reply to the suggestion of the possibility of handling the matter through the existing account of the Bank of France on the books of the New York bank, and Mr. Dreibelbis replied that he had gathered that the New York bank had advised the Treasury to handle the matter on a fiscal agency basis and that the Treasury had canvassed the situation and decided to handle the matter in that way.

Chairman Eccles inquired whether Mr. Dreibelbis had discussed with Mr. Foley the question as to whether the Treasury would be prepared to take the same position with respect to carrying an account for any other government which might want to make purchases in the American market. Mr. Dreibelbis said that Mr. Foley replied in the affirmative, adding that it would be done if the relationships were the same.

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There ensued a brief discussion of a memorandum regarding the legal aspects of the matter which had been prepared at Chairman Eccles' request by Messrs. Wyatt and Vest since the adjournment of the morning session.

Chairman Eccles inquired if the Board's position was not as follows: that the New York bank had advised the Treasury that such an account could be established under the fiscal agency relationship, that if the Secretary would make a formal request the bank would establish the account and treat it in a confidential manner just as all other fiscal agency matters were treated, that the Board had become concerned in the matter, not directly by the New York bank asking for approval, because the bank felt it was a fiscal agency matter in which the Board was not concerned, but through advice from the Treasury of what it proposed to do. He said that he felt it was important to get Mr. Logan's opinion as to why this was a fiscal agency transaction and why the New York bank had advised the Treasury as it had regarding the establishment of the account.

Mr. Draper then referred to the question of policy involved in the matter and Chairman Eccles stated that he did not think the Board should advise the Treasury that it would be inadvisable to establish the account as a fiscal agency matter, because if it could be legally established and the Treasury decided to take the responsibility of establishing it there was nothing the Board could do about it.

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Mr. Davis again raised the question as to whether the Board was justified in accepting the position that anything was a fiscal agency service which the Treasury said was one, or whether the Board had a responsibility of going back of that and determining whether it was a fiscal agency service.

Mr. Draper said that, while he did not feel the Board could prohibit the opening of the account, he did feel that it could record its opinion as to the legality of the matter.

At this point Mr. McKee left the meeting.

Chairman Eccles stated that he thought the Board could discuss the matter informally with the Secretary and say that, while it appeared that the Treasury and the New York bank and its counsel felt that the account could be opened under the fiscal agency provision, there was considerable doubt on the part of some of the members of the Board and its legal staff as to its being a fiscal agency matter, and that the Board felt that the matter could be handled in another manner, that is, through the existing account of the Bank of France on the books of the New York bank, as to which manner there appeared to be no legal question, and if handled in that manner it would not require the approval of the Board of Governors or the board of directors of the New York bank, that there would be no more reason to report the transactions in the account to the directors of the New York bank than there would be if the account were established as a fiscal agency operation, and that for these reasons it would be the

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Board's suggestion that the Treasury consider the advisability of having the operation carried on through the existing account.

At the conclusion of a further discussion of the matter, the meeting adjourned.

Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. C. ...
Chairman.