

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 14, 1939, at 9:00 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, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel
Mr. Vest, Assistant General Counsel

Mr. Harrison, President of the Federal Reserve Bank of New York
Mr. Logan, General Counsel for the Federal Reserve Bank of New York

Chairman Eccles advised Mr. Harrison that the Board had a lengthy discussion on yesterday with respect to the opening of accounts for the French and British Governments at the Federal Reserve Bank of New York and thought it advisable to ask him and Mr. Logan to come to Washington to inform the Board regarding their conversations and conclusions and the advice that had been given to the Treasury with respect to the matter. He stated that questions had arisen, first, as to whether the account should be opened under the fiscal agency provision contained in Section 15 of the Federal Reserve Act and on what legal basis it would be justified, and second, what

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objection there would be to handling the matter in another way.

Mr. Harrison then reviewed for the information of the members of the Board some of the history of the fiscal agency relations between the Treasury and the Federal Reserve Bank of New York, during which he stated that there had been times when the Secretary of the Treasury had asked him to perform certain fiscal agency functions without mentioning them to his board of directors and that he had advised the Secretary that all fiscal agency matters would be handled without advice to the directors of the New York bank unless in his judgment they involved some risk to the bank, in which event he felt it would be necessary to advise his directors, and that the Secretary had agreed to this procedure. Mr. Harrison said that he had advised his directors that fiscal agency matters were private and confidential and that they would be performed without advice to them. He also stated that at times he had been in a very difficult position because there were instances when he thought the Board of Governors should be informed, and he had so advised the Secretary of the Treasury and requested him to advise the Board on certain occasions when the Secretary had done so. Mr. Harrison added that he had felt all along that it would be necessary for the Board and the Treasury to work out a method of handling fiscal agency transactions which would enable all parties concerned to meet their responsibilities and that it would be satisfactory to him to handle such transactions in any manner agreed upon by the Treasury and the Board.

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Mr. Harrison then said that, in connection with the opening of an account on a fiscal agency basis for the French Government, the Secretary had called him on the telephone some time ago and inquired whether if he, as Secretary of the Treasury, requested the Federal Reserve Bank of New York in the appropriate form to open an account with the British or French Government that would be done; that he had inquired of the Secretary if it was his desire that the New York bank, as fiscal agent for the Treasury, open the account and stated that, if that were the request, he would like to talk to counsel for the bank before answering, but offhand he would say the bank would have to do it; and that he had advised the Secretary that, under the present circumstances and procedure, he did not think he would have to report the matter to the Board of Governors or to the board of directors of his bank if the account were opened on a fiscal agency basis; but that that was a matter to be decided by the Board and the Secretary. Mr. Harrison stated that he discussed the matter with Mr. Logan and requested his opinion as to whether, in the event the Treasury requested the New York bank to open the account as a fiscal agency operation, it would have to do so, or whether it was the bank's obligation to look back of the transaction in order to see whether it was one in the public interest. He stated that Mr. Logan had agreed that if the Treasury asked the New York bank to open an account for a foreign government on a fiscal agency basis it was not a matter for decision by the bank and that he did not think any other conclusion could possibly

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be reached, especially as it was the kind of a transaction which the New York bank had in the past carried on for the Treasury at its request. Mr. Harrison stated that similar accounts had been opened with the British, French and Italian Governments in 1917.

Mr. Ransom inquired if any consideration had been given to handling the matter in another way, and Mr. Harrison replied that he had pointed out to the Secretary of the Treasury that it could be handled through the accounts of the Bank of England and the Bank of France now on the books of the New York bank.

Chairman Eccles stated that he had received the impression from the Secretary of the Treasury that it was not the Treasury's first choice to handle the matter on a fiscal agency basis but that they were deterred from handling the matter in the usual manner because the Treasury was advised that the only way the matter could be kept confidential was to open it as a fiscal agency account. He said that, in connection with keeping the matter strictly confidential in a fiscal agency account, that could be done by consent of the Board of Governors and the board of directors of the New York bank, that the Board in the past had consented to such a practice, that under its general supervisory powers it could demand full and complete information with respect to any aspect of the System, that it was reasonable to think that, if the Treasury advised the Board or the directors of the New York bank that this was a confidential matter and requested that knowledge with respect thereto be confined to those who had the

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responsibility for the operation of the account, no member of the Board or director of the New York bank would demand to know the operation of any such confidential account, and that it seemed to him that the Secretary of the Treasury should understand that there was no need in order to keep such information confidential to establish the account under the fiscal agency provision. Chairman Eccles then referred to the fact that Mr. Harrison had stressed the point that he was unable to advise his directors on fiscal agency matters and stated that, as he understood it, Mr. Harrison had advised the Treasury that the principal reason for establishing the account as a fiscal agency operation was in order to keep it in the strictest confidence, to which Mr. Harrison replied that he had not mentioned that to the Secretary.

Mr. Harrison then stated that he had had an understanding with his board of directors when he first became president of the bank that there would be various foreign transactions which he thought, in the public interest, should not be disclosed to the directors, that they had agreed that he was quite right in following this procedure, and that they had designated three directors as a committee on foreign matters with whom he could confer without reporting to the full board of directors.

Chairman Eccles stated that it might be that the Treasury had other reasons for maintaining the account as a fiscal agency matter, but that it seemed to him that what appeared to be the objections to maintaining it other than as a fiscal agency account were objections

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that could be readily removed, that the Treasury could get full and complete information with the consent of the French Government, if the matter were handled in another manner, that if the French Government were willing to open the account as a fiscal agency account, it certainly would be willing to make the affairs of the account open to the Treasury, on the Treasury's request, if it were opened in another way, and that the account could be kept just as confidential so far as its detailed operation was concerned. Chairman Eccles then stated that it seemed to him from the standpoint of the statute the responsibility of the Board of Governors as a governmental body with respect to these particular types of transactions was possibly a greater responsibility than that of the board of directors of the New York bank. Chairman Eccles raised the question whether the Board should at least advise the Treasury that the matter could be handled through the account of the Bank of France on the books of the New York bank or as a subsidiary account of the Bank of France which would perform the function just as well and stated that he thought that, if the matter were 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, inasmuch as it would be an extension of an existing relationship.

The Board recessed at 10:00 a. m. and reconvened at 11:00 a. m. in executive session with all of the members of the Board and Mr. Morrill present.

The Chairman stated that the members of the Board had agreed

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upon the substance of a memorandum which was to be handed by him to the Secretary of the Treasury on Monday, it being understood that the Secretary was out of town today.

Thereupon the members of the Board proceeded with the drafting of a memorandum which, when completed, was agreed upon in the following form:

"Referring to the talks that you have had with me regarding a proposal that the Federal Reserve Bank of New York, as fiscal agent of the United States, open accounts with the Government of Great Britain and the Government of France, I have discussed this matter with the other members of the Board of Governors. While the law provides that the Federal Reserve Bank, when required by the Secretary of the Treasury, shall act as Fiscal Agent of the United States, it was the opinion of the Board that there would be some advantage in handling the matter in another way. It might be wiser, instead of requesting the New York Bank as fiscal agent of the United States to open governmental accounts under the plan suggested, if an arrangement were made under which the Bank of England and the Bank of France, which now have accounts on the books of the Federal Reserve Bank of New York, would utilize such accounts for such special deposits and withdrawals as in the circumstances might be necessary. This procedure has the advantage of conforming to existing practice. You indicated some question as to the confidential nature of such accounts. Such accounts need be no less confidential than governmental accounts which might be opened by the Federal Reserve Bank acting as fiscal agent of the United States under the plan suggested. Furthermore, there is no reason why you could not be as fully and continuously advised as to governmental transactions handled through the central bank accounts as you would be as to transactions in the accounts proposed to be carried on the books of the New York Bank acting as fiscal agent, provided the respective governments instructed the central banks to authorize the New York Bank to give you the desired information."

The Chairman stated that he would hand the memorandum informally to the Secretary on Monday with the explanation that the members of the

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Board had taken this means merely to avoid any misunderstanding as to the views which they had agreed upon and that, if the Secretary desired to discuss the matter further, the Chairman would make it clear that any additional views he expressed in such a discussion were exclusively his own.

(Secretary's Note: Following the adjournment of the meeting, the Chairman added the following sentence at the end of the memorandum: "I appreciate your discussing the matter with me and will be glad to be advised currently as to any further developments in connection with this or any other important matter affecting the fiscal agency relations.")

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 12 and 13, 1939, were approved unanimously.

Thereupon the meeting adjourned.

Robert H. Morris
Secretary.

Approved:

W. C. C. C. C.
Chairman.