A meeting of the Board of Governors of the Federal Reserve System with the Chairmen of the Federal Reserve Banks was held in Washington on Tuesday, December 5, 1939, at 10:00 a.m.

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

Messrs. F. H. Curtiss, Owen D. Young, T. B. McCabe, G. C. Brainard, Robert Lassiter, W. T. Nardin, and R. B. Caldwell, Chairmen of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, St. Louis, and Kansas City, respectively

Messrs. R. E. Wood, W. C. Coffey, Jay Taylor, and St. George Holden, Deputy Chairmen of the Federal Reserve Banks of Chicago, Minneapolis, Dallas and San Francisco, respectively

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, 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. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations
Mr. Parry, Chief of the Division of Security Loans
Mr. Dreibleibis, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Conklin, Senior Economist in the Division of Research and Statistics
Mr. Thompson, General Assistant in the Secretary's Office
After welcoming the Chairmen to the meeting, Mr. Eccles reviewed the actions which had been taken by the System in the Government securities market because of unsettled conditions which accompanied the outbreak of hostilities in Europe. He discussed briefly the considerations which prompted the purchase of securities during the period of market decline and the subsequent sales of securities from the System account. In this connection he called attention to the fact that the System open market account is now slightly smaller than when the policy of allowing bills to run off without replacement was adopted last June, so that recent operations in the account, taken as a whole, have had no material effect upon the reserve position of member banks. He also discussed the reasons for the large excess reserve position of member banks and expressed the opinion that with the present strong indications of continued gold imports there was little likelihood of a change in this situation or in general money market conditions in the near future.

Mr. Goldenweiser was then called upon to make a statement with respect to the discount rates at the Federal Reserve banks with particular reference to uniformity of rates at all Federal Reserve banks. A memorandum of the important points covered in Mr. Goldenweiser's statement has been placed in the Board's files.

In response to an inquiry from Mr. McCabe as to whether it was desirable to have more uniformity in the discount rates of the
Federal Reserve banks than we have at the present time, Mr. Goldenweiser expressed the opinion that these rates should be uniform for the reason that the money market is a national and not a local one and the discount rate should be related to the open market rate. He also expressed the opinion that the rates for advances under section 10(b) of the Federal Reserve Act should be uniform and should not exceed the regular discount rate by more than the one-half per cent required by law and that the requirement of that differential should be eliminated at the first opportunity. He observed that for a number of years the question of discount rates at the Federal Reserve banks has been largely academic inasmuch as member banks have not been borrowing and, while situations may arise where it would be desirable to have different discount rates in different districts, he felt strongly that in the present situation they should be uniform in all districts and that now was a good opportunity to adopt that policy when the question of rates was not important.

Chairman Eccles added that it would be a desirable situation to have the discount rates at a low level at this time so that when the time comes to increase the rates the desired psychological effect of rate increases can be obtained without increasing rates to a high level.

During a discussion of the possible relation of the discount rate to speculative conditions in a district or generally throughout the nation, Mr. Parker, President of the Federal Reserve Bank of
Atlanta, joined the meeting. The Board had been advised of the inability of Mr. Neely to be present because of illness and that the other Class C directors were also not available. In the circumstances, Mr. Neely arranged for Mr. Parker's attendance with the approval of the Board.

Mr. Curtiss referred to the second part of the topic of discount rates of Federal Reserve banks which related to discussions between the Board of Governors and directors of Federal Reserve banks of reasons for changes in discount rates, and stated that it had been the custom of his bank in the past to send a letter to the Board stating the reasons which prompted the board of directors of the bank to make a change in the bank's discount rate. Mr. Morrill stated that this phase of the topic had been suggested for the purpose of raising the question of the desirability of informal discussion between the Board of Governors and the directors of the Federal Reserve banks of the reasons for particular changes in discount rates before those changes are actually made.

Mr. Goldenweiser then introduced Mr. Conklin of the Division of Research and Statistics who has charge in the Division of the statistical information collected through the Federal Reserve banks and Mr. Conklin made a statement with respect to the collection and analysis of current information by the Federal Reserve banks and the Board. A summary of Mr. Conklin's statement has also been placed in the files.
During a discussion of the purpose of the Board in collecting this information and the efforts being made to perfect available business statistics, Mr. Ransom inquired of Mr. Thomas whether he had any suggestions to offer as to how we could obtain better information than we are getting at the present time. Mr. Thomas referred to the existing understanding with the Commerce Department that that Department will expand its activities with respect to statistics on manufacturing and said that the Division of Research and Statistics did not regard it as its responsibility to collect regularly statistics for industry but preferred to take the information developed by the Department of Commerce, various trade associations, and other organizations, and to analyze that information as currently as possible for indications of trends, to ascertain what questions the data do not answer, and to try to develop the answers to specific questions through direct contacts or otherwise.

In response to an inquiry as to whether the Federal Reserve banks were cooperating in the collection of the information desired by the Board, Mr. Thomas stated that the banks were giving excellent cooperation. In this connection, Mr. Goldenweiser stated that the Chairmen were in a position to be of a great deal of help to the Board by taking a special interest in the activities of the Federal Reserve banks in this field.

Chairman Eccles called on the Chairmen for such comments or suggestions as they might wish to make with respect to this topic.
The comments of the Chairmen included the suggestion that a tremendous amount of information is being requested by Government agencies of various kinds and it would be a very great help to industry, and there would be less difficulty in getting cooperation from industry if this information could be collected through a central point; that the objectives of the statistical function might be more clearly defined; that the industrial activities in the various Federal Reserve districts are very different and the problem would have to be handled differently in the different districts; and that there was a question as to the extent to which the information collected should be used in making forecasts. The opinion was also expressed that the information was not obtained and analyzed quickly enough to serve the purposes of the System and that it should be gathered and distributed more rapidly. It was the general opinion of the Chairmen that the policy of the System in expanding its activities in this field was a desirable one, that it was helpful to the officers and directors of the Federal Reserve banks, and that the banks would gladly cooperate in carrying on the work. The suggestion was also made that there should be a closer contact between the research departments of the banks and the Board's Division of Research and Statistics and that it would be well to have more frequent meetings of the personnel at the Federal Reserve banks handling this work and the Board's Division of Research and Statistics in Washington. In that connection a suggestion was made that temporary exchanges of economists between banks might be helpful. It was stated
that the question of the more effective collection of statistical information by Government agencies was in the process of being studied by the Central Statistical Board and that any forecasts made by the Division of Research and Statistics were confidential and were not released to the public.

At 1:00 p.m. the meeting recessed and reconvened at 2:00 p.m. with the same attendance as at the morning session except that Mr. Davis was not present.

In connection with the topic which was under discussion when the recess was taken, Mr. McCabe suggested that representatives of the Board visit the various Federal Reserve banks and discuss with the directors the program of the Board for the collection and analysis of business information and the way in which the respective Federal Reserve banks can cooperate in developing ways in which the desired information can be collected.

At the conclusion of the discussion of this topic, Messrs. Thomas and Conklin left the room.

Mr. Paulger made a statement with respect to the relation between the auditors of the Federal Reserve banks and the board of directors and of the value of current audit reports and discussions thereof by the directors. A summary of this statement has been placed in the files.

At the conclusion of Mr. Paulger's statement, Mr. Brainard
inquired to what extent employees in the auditing department might be used in other departments of the bank, and it was stated that there was no reason why permanent transfers to and from the auditing department should not be made and that there was no objection to members of the auditing staff rendering assistance to the nonoperating departments of the bank, such as examination, personnel, or research departments.

Following an inquiry by Mr. Taylor relating to Mr. Paulger's statement that there had been few losses as the result of irregularities in the Federal Reserve banks Mr. Eccles raised the question whether, on the basis of the Federal Reserve banks' loss experience, it would be cheaper for the banks to adopt a program of self-insurance. Mr. Smead stated that a survey of the insurance practices of the Federal Reserve banks was now in progress which it was hoped would develop the necessary information for a decision on this point.

In response to an inquiry from Mr. Ransom whether the Chairman had any comments to make with respect to information which they are now receiving from the auditors, Mr. Wood suggested that the audit reports and the reports of examination made by the Board's examiners be made shorter or that they be supplemented by brief summaries.

Mr. Goldenweiser withdrew at this point.

On the question of the relation of the auditor to the board of directors, Mr. Young stated that the procedure now being followed
by the Federal Reserve Bank of New York had been found to be very satisfactory to the directors and had resulted in an independent status for the auditor. He stated that the bank has an auditing committee consisting of the Chairman and two other directors appointed by the Chairman to serve for periods of three months; that the auditing committee meets with the auditor after the first of each month; and that he (Mr. Young) did not know of anything that gives the directors as good a picture of the operations of the bank as the review of the audit reports at these meetings. He added that the auditor not only reports to the auditing committee, but the salaries of all of the officers and employees in the auditing department are fixed by the directors quite independently of the executive officers of the bank.

Under this procedure, Mr. Young stated, the Chairman reports to the board of directors, calling attention to anything that is developed by the auditing committee that it is felt should be brought to the attention of the board, but that otherwise the board of directors as such is not called upon to act upon the audit reports although they are available to any director.

At this point, upon inquiry by Mr. Nardin, it was stated that it was the practice at all of the Federal Reserve banks to have the auditor report directly to the board of directors independently of the executive officers and that this procedure was the usual thing in commercial banking practice.
Mr. Nardin asked whether there was any objection to the executive officers of the bank sitting with the auditing committee, when the auditors' reports were discussed and it was agreed that there was not only no objection to such an arrangement but, on the contrary, it was ordinarily desirable to have the President and possibly some of the other executive officers present.

Further discussion brought out the fact that at some of the Federal Reserve banks any directors who are available are invited to be present during the discussion of audit reports and in some cases the auditor discusses a report before the entire board of directors.

At the conclusion of the discussion Mr. Eccles stated that the important thing brought out by the discussion was that the auditor was responsible to the board of directors of the bank and should be independent of the operating officers and that it was not the purpose of the Board of Governors in discussing this matter to prescribe the way in which the audit function at the bank should be performed.

Mr. McCabe referred to the audit by outside auditors which he had had made of the Federal Reserve Agent's accounts at the time he became Chairman and Federal Reserve Agent and was requested to sign receipts for collateral for outstanding notes and for unissued Federal Reserve notes in the Federal Reserve Agent's department, and said that he was continuing to have checks made by outside auditors
and would continue that procedure unless advised by the Board that it was not necessary or desirable.

Mr. Young stated that it had been the position of the board of directors of the Federal Reserve Bank of New York that it was the responsibility of the examiners for the Board of Governors to check up on the Federal Reserve Bank auditors at the time of the annual examinations of the Federal Reserve banks and that if the audits were not being made in a satisfactory manner it was the opinion of the directors that the Board's examiners should ascertain that fact and advise the directors accordingly.

Mr. McCabe questioned whether the annual examination made by the Board's examiners would meet the point he had in mind because of the possibility of something happening between examinations. Mr. Paulger stated that the Division of Examinations would be glad to send an examiner to Philadelphia at any time to make any check that Mr. McCabe thought might be desirable.

Mr. Eccles commented that the Board's examiners are specialists in auditing and examining the accounts of the Federal Reserve banks and for this reason should be more competent than an outside firm of accountants in this work, and that if at any time the Chairmen should feel that the Board's examiners were not performing their work in a satisfactory manner, the Board should be advised.

Mr. Szymczak referred to the fact that the Board has recently adopted the policy of rotating the examiners in charge of examinations
of the Federal Reserve banks for the purpose of getting the viewpoint
of different examiners with respect to the practices and procedures
at the respective Federal Reserve banks.

Mr. McCabe suggested that it would be extremely helpful whenever
a new Chairman and Federal Reserve Agent is selected to send him
a letter advising of the services that are available to him in matters
of this kind. It would also be helpful, he said, if the letter could
outline the Chairman's responsibilities and make such other sugges-
tions as would be helpful in acquainting him with his new duties.

Chairman Eccles stated that we would bear this suggestion
in mind. He also said that the office of Chairman and Federal Re-
serve Agent should be separated and that when further banking legis-
lation was under consideration this would again be suggested.

Mr. Parker stated that the survey made a year or so ago by
the Board's examiners of the auditing department of the Federal Re-
serve Bank of Atlanta had been extremely helpful and he inquired
whether similar surveys were in contemplation for the future. Mr.
Paulger replied that they were and pointed out that surveys of the
auditing, examination and fiscal agency departments are made from
time to time in connection with the regular examinations of the
banks.

Mr. Paulger commented on certain points relating to the in-
formation contained in the reports of examinations of the Federal
Reserve banks made by the examiners for the Board of Governors, and a summary of this statement has also been placed in the files. Following the statement Mr. Curtiss stated that it would be helpful if there could be made available to the board of directors the minor matters of criticism which were discussed by the examiners with the operating officers but not made a part of the formal report, and other Chairmen agreed with this suggestion.

Mr. Young stated that the report of examination apparently consists of three parts: (1) the formal report, (2) matters taken up with the officers, and (3) a confidential section which is sent only to the Board of Governors and is not made available to the directors. He said the formal report was very useful to the directors, that the memorandum of criticized matters for the officers was a wise way of handling minor matters with the officers although it was his understanding that it was the practice of the President of the New York bank to discuss the memorandum with the board of directors, that he personally had taken the very firm position that there should be nothing which the Board of Governors knew about the Federal Reserve Bank of New York which he as Chairman of the bank was not entitled to know, and that he desired to emphasize that aspect of the matter at this time.

The point raised by Mr. Young was discussed, and he explained that he had no objection to the procedure now being followed but felt the directors should have the same information about the bank as is
available to the Board of Governors.

Inquiry was made as to whether it was the present practice of the examiners to discuss the confidential section of the report with the board of directors or the Chairman and Mr. Paulger replied in the negative. It was pointed out, however, that any information contained in the confidential section of the report was brought to the attention of the board of directors of the bank by letter or otherwise whenever it involved a matter which the Board felt the directors should know about.

Mr. Ransom said that a procedure that could be followed would be for the examiner to sit down with the Chairman or Deputy Chairman and discuss with him the information which the examiner proposed to put in the confidential section of the report.

Mr. Eccles stated that the suggestions made during the discussion would be considered by the Board.

Toward the end of the discussion of this matter Mr. Young left the meeting.

Mr. Morrill stated that Mr. Davis had gone to Chicago to attend a meeting of the American Farm Bureau Federation where he would receive a special award in recognition of his contribution to agriculture, that he would discuss with the Chairmen tomorrow the topic of member bank and other public relations activities of the Federal Reserve banks, and that he had arranged to present to the Chairmen today transcripts of two of the broadcasts which were being prepared
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by the Federal Reserve Bank of Minneapolis as part of a series of thirteen programs dealing with the activities of the Federal Reserve Bank which are being presented over station WCCO in Minneapolis. The first recording, Mr. Morrill said, related to the facilities of the Federal Reserve banks for transferring funds by telegraph and the second to the retirement of unfit currency. The two recordings were presented, after which the meeting recessed with the understanding that it would reconvene again tomorrow morning at 10:00 a.m.

Secretary.

Approved:

Chairman.