

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, May 14, 1940, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Director, Division of Research and Statistics
Mr. Piser, Senior Economist, Division of Research and Statistics

The following question was raised by Mr. Harrison, President of the Federal Reserve Bank of New York, in a telephone conversation with Chairman Eccles which was heard by the others present over the loudspeaker.

Mr. Harrison stated that yesterday the Federal Reserve Bank of New York received a cable from the Bank of England, a copy of which was sent to the Board and which read as follows:

"ONE We have been considering possible steps which might need to be taken to protect British Government exchanges/ gold/ security holdings in the United States at present held in names of various British banks including ourselves against the risk of attachment at the instance of enemy interests

"TWO H M G's legal advisers in Washington have expressed the view that complete protection against attachment can only be obtained by

- A Transferring such assets into the name of a clearly identifiable nominee of HMG
- B Notifying the holding bank that such assets are held on behalf of HMG
- C The British Ambassador to acquaint the United States State Department of the designation of the accounts held and that the funds in question are owned by HMG

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"THREE So far as the holdings in our name with you are concerned we fully appreciate that it is contrary to your policy to open accounts in the name of a foreign government

"FOUR But both H M G and ourselves feel it is essential to take every precaution and I understand to this end H M G's diplomatic representative in Washington will inform Mr. Morgenthau of the necessity to protect our position as in No. 2 above. We felt that you would like to know before any such move is made in order that you may be aware of the background

"FIVE If we could have your reactions by cable we could then telephone you if that would be helpful."

Mr. Harrison explained that it was understood at the Reserve Bank that the English Government desired to place in the name of the British Government all the securities and balances held for that Government in the United States, excluding the funds of the Bank of England but including the British Government funds in the special account maintained by the New York Bank for the Bank of England. He said that Mr. Logan, Vice President and General Counsel for the Federal Reserve Bank of New York, felt that the question involved seemed to be that foreign government funds are not attachable in this country for the reason that no foreign government can be sued here without its consent, and that, while the existing arrangement is probably adequate to protect the British Government, apparently British officials desire to get government funds, and perhaps securities and everything else belonging to the British Government in this country, placed expressly in the name of the Government.

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Mr. Harrison made the further comment that the Federal Reserve Bank of New York had replied to the cable that it would discuss the matter with Washington and try to communicate with the Bank of England today.

Mr. Harrison felt that the New York Bank could (1) accept the funds at the request of the Treasury as fiscal agent for the Treasury, (2) open an account with the British Government if Congress authorized the Bank to do so, (3) indicate that the Bank would have no objection to the British Government withdrawing the funds and placing them with a commercial bank in the name of that Government, or (4) leave the situation as it is at the present time on the theory that the British Government is adequately protected, which, however, is a question for their attorneys to decide.

At this point Mr. Wyatt joined the meeting.

Chairman Eccles stated to Mr. Harrison that he would call Merle Cochran, Technical Assistant to the Secretary of the Treasury, and discuss the matter with him. Mr. Harrison replied that a copy of the cable had been sent to the Treasury. Chairman Eccles said that about all the New York Bank could do would be to withhold its reply to the Bank of England until the Treasury indicated how it desired to have the matter handled.

Mr. Harrison then stated that a cable was received last night at 7 o'clock from the Nederlandsche Bank reading as follows:

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"Will you kindly note that the right to dispose of our gold account F and our dollar account F with your institution no longer belongs to our bank but has been transferred to the Netherlands Government effective today. If and when the Netherlands Government draws on the said account they probably will do so through the intermediary of the Bank of England."

This was followed, Mr. Harrison said, by a second cable from the Nederlandsche Bank in the following form:

"We request you, after receipt of this message, no longer to execute any instructions sent to you on our behalf if and when such instructions are dispatched to you from the Netherlands."

There was a discussion over the telephone of the effect of both of these cables and of the basis upon which the New York Bank might be justified in acting on a request through the Bank of England for a transfer of the Dutch accounts maintained by the New York Bank. Mr. Harrison said that the Reserve Bank would not do anything about these accounts until he had received such a request and advice from the Treasury as to what it desired to have done.

Mr. Eccles stated that he would talk with Mr. Cochran about the matter and if there were anything to report he would call Mr. Harrison back.

Following the conclusion of the conversation with Mr. Harrison there was a discussion of possible ways in which the account of the British Government could be set up and at the conclusion of the discussion Messrs. Wyatt, Goldenweiser, Vest and Gardner were requested to study

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the matter for the purpose of being prepared, in the event the views of the Board or its staff were requested, to make recommendations as to how the matter might be handled.

Chairman Eccles stated that he would talk to Mr. Cochran over the telephone and say to him that, if desired, members of the Board's legal division and the Division of Research and Statistics would be glad to discuss the matter with representatives of the Treasury Department.

The meeting then recessed and reconvened at 12:15 p.m. with the same attendance as at the earlier session except that Messrs. Vest and Gardner were in attendance.

Mr. Eccles said he had talked with Mr. Cochran regarding the questions presented by the cables received by the New York Bank from the Bank of England and the Nederlandsche Bank, had reviewed for his information the discussions at the meeting of the Board this morning with respect to possible solutions of the question presented by the Bank of England Cable and had stated to Mr. Cochran that the Board would be glad to be of such assistance as it could in meeting the problem, that to that end members of the Board's staff would be available for consultation, if desired, and that the Board would like to be advised when a definite decision was reached by the Treasury as to the manner in which the situation was to be met.

At this point Messrs. Wyatt, Goldenweiser, Piser, Vest, and

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Gardner 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 May 13, 1940, were approved unanimously.

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

"Referring to your letter of April 30, 1940, and its enclosures, relating to the release of securities deposited with the State authorities by The First National Bank of Wahoo, Wahoo, Nebraska, in connection with its exercise of fiduciary powers, we are enclosing, for transmittal to the State authorities, a certificate which we trust will satisfy their requirements. We are also enclosing two copies of the certificate, one for your files and the other to be transmitted to the bank."

Approved unanimously.

Letter to Mr. Frank W. Simmonds, Senior Deputy Manager, The American Bankers Association, New York, New York, reading as follows:

"Replying to your letter of May 8, the statistics of earnings and expenses of State bank members of the Federal Reserve System for the calendar year 1939, by States and size of banks, are not yet available but it is expected that they will have been completed in about a month. You will be advised as soon as the data become available so that, in accordance with your custom, you may send your clerks to the Board's offices to take off the desired data."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morris
Secretary.

Approved:

W. S. ...
Chairman.