A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 12, 1940, at 3:45 p.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. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel
Mr. Gardner, Senior Economist in the Division of Research and Statistics

Mr. Morrill read a telegram just received from President Harrison of the Federal Reserve Bank of New York as follows:

"Reference is made to previous discussions with regard to 150,000 gold sovereigns which we hold in name of Banco Central de Bolivia, La Paz, Bolivia, and with respect to which Banco Mercantil, La Paz, Bolivia, has made adverse claim. This gold is of course that referred to in the following:
Note dated June 1, 1940, from Secretary of State to Board, and its enclosure.
Letter dated May 29, 1940, from American Legation, La Paz, Bolivia, to Secretary of State, and its enclosures.
Telegram No. 440 of June 6, 1940, from the Embassy at La Paz.
Letter dated June 1, 1940, from this Bank to Bolivian Minister in Washington, and its enclosures.

As we have indicated in our previous discussions, it seems clear to us that in view of such adverse claim of Banco Mercantil we could not ship gold to Banco Central without
incurring risk of substantial liability. Since, however, we understand that the State Department is interested in having the gold shipped to Banco Central if this can be arranged without risk to us, we offer following alternative suggestions:

(1) That consent of both Banco Central and Banco Mercantil be obtained to shipment of gold to Bolivia consigned to a court or other designated party to be held in custody pending settlement of issues between Banco Central and Banco Mercantil.

(2) That we be furnished with satisfactory bond issued by an American surety company to indemnify us against loss, liability and expense.

(3) That in lieu of furnishing such bond, Banco Central deposit dollars in a blocked account with us in sufficient amount to protect us against loss, liability and expense.

(4) That act of Congress be obtained authorizing us to ship gold to Bolivia and protecting us against loss thereby by directing that we be reimbursted for any such loss out of general fund of United States Government.

We shall be glad to have you communicate any or all of the foregoing suggestions to State Department and Treasury Department."

In the discussion of the telegram it was suggested that there were at least three additional alternative courses of action that might be taken, one of which would be for the Federal Reserve Bank of New York to place the funds in the hands of the courts for decision as to whom they should be paid. Mr. Dreibelbis said it was his understanding that the Federal Reserve Bank of New York had not made this suggestion because of the delay that would be involved in such a proceeding.
and because it was understood that the Central Bank of Bolivia did not want to have the matter take that course. A second possible solution would be for the State Department to suggest that the Treasury revoke the license of the New York Bank to hold the gold following which the Treasury, which would not be subject to suit, could ship the gold to the Central Bank if it were decided that that was the course to be followed in the light of all the circumstances. Mr. Ransom said the New York Bank had been unwilling to make this suggestion for the reason that it might establish an undesirable precedent and that, in the opinion of the Bank, there was a question whether the situation called for such action. The third alternative would be for the Bolivian Government to nationalize gold and require the gold to be turned over to it.

During the course of the discussion Mr. Ransom said he and Mr. Dreibelbis had discussed the situation with Mr. Collado of the State Department on Friday of last week, June 7, 1940, and had stated to him at that time that they would be glad to go to the State Department to confer with Mr. Welles, Under Secretary of State, and Mr. Collado regarding the matter at any time it suited their convenience, that it had been expected that Mr. Collado would arrange a conference with Mr. Welles during the early part of this week, and that in the circumstances it was thought that the best course to pursue would be for Messrs. Ransom and Wyatt to call on Mr. Welles and present to him a copy of
the telegram and say that if the four solutions suggested in the
telegram were regarded as impractical the three additional suggestions
referred to above might be considered and that unless the State or
Treasury Department had some other solution to offer it was believed
that the New York Bank would be forced, in order to protect its posi-
tion, to take the matter into court for decision as to whom they
should be paid.

It was agreed unanimously that Mr.
Ransom's suggestion should be carried
out and that, inasmuch as copies of all
of the previous communications received
from the Federal Reserve Bank of New
York had been sent to the Treasury De-
partment, that Department should be ad-
vised of what was being done.

At this point Messrs. Wyatt, Goldenweiser, Dreibelbis, and
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 June 11, 1940, were approved unani-
mosly.

Letter to the "Farmers-First National Bank of Stephenville",
Stephenville, Texas, reading as follows:

"This refers to the resolution adopted on December
30, 1939, by the board of directors of your bank, signify-
ing the bank's desire to surrender its right to exercise
fiduciary powers heretofore granted to it."
"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: [Signature]
Chairman.