

A meeting of the Federal Reserve Board was held in Washington on Thursday, October 26, 1933, at 2:30 p. m.

PRESENT: Mr. Black, Governor  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Thomas  
Mr. Szymczak

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Martin, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Chase, Assistant Counsel

Governor Black referred to the vacancies existing in the Board's Committee on Examinations and Committee on Salaries and Expenditures of Federal Reserve Banks, and stated that he felt it was desirable that the vacancies be filled.

Accordingly, Mr. Thomas was appointed as Chairman of the Committee on Examinations, Mr. James being the other member of the Committee; and Mr. Szymczak was appointed as a member of the Committee on Salaries and Expenditures of which Mr. James is Chairman.

Mr. Hamlin reported that he had been advised this morning over the telephone by Mr. Curtiss, Federal Reserve Agent at Boston, that as a result of an examination of the Merrill Trust Company of Bangor, Maine, made in connection with an application for membership in the Federal Reserve System filed by the bank on behalf of a new institution to be organized to take over the trust company, deposits in the bank had ceased, and, while it was not experiencing a run, the officers of the bank were afraid that a serious situation may develop, and that it is desirable that the Board take action on the application as soon as possible.

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Mr. Morrill stated that the application for membership had been delivered to the Board this morning by Mr. Gilson, Examiner at the Federal Reserve Bank of Boston; that the Division of Examinations and Legal Division are working actively on the application and will expedite the matter as much as possible; and that unless difficulties are met they may be able to make a recommendation to the Board tomorrow. Governor Black stated that he was leaving for Chicago this afternoon, and Mr. Hamlin suggested that, inasmuch as he would be in Boston tomorrow, the Executive Committee of the Board be authorized to act on the application.

Accordingly, the Executive Committee was authorized to act on the application of the Merrill Trust Company for membership, upon receipt of the recommendations of the Division of Examinations and the Legal Division.

There was then presented for final consideration by the Board a revised draft of Regulation R, "Relationships with Dealers in Securities Under Section 32 of the Banking Act of 1933," copies of which had been furnished to all members of the Board, and in which had been incorporated a number of suggestions received from the Federal reserve agents in response to the Board's letter of September 13, 1933.

After discussion, the Board approved the regulation in the following form, effective November 1, 1933. The Board also authorized its publication in the next issue of the Federal Reserve Bulletin and the printing of official copies in pamphlet form. The Secretary was requested to send mimeographed copies to all Federal reserve agents with the request that they have copies printed locally and distributed at once in order to avoid unnecessary delay.

"REGULATION R, SERIES OF 1933.

RELATIONSHIPS WITH DEALERS IN SECURITIES

Under Section 32 of Banking Act of 1933.

## SECTION I. STATUTORY PROVISIONS.

"Section 32 of the Banking Act of 1933 provides as follows:

'Sec. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities, and no member bank shall perform the functions of a correspondent bank on behalf of any such individual, partnership, corporation, or unincorporated association and no such individual, partnership, corporation, or unincorporated association shall perform the functions of a correspondent for any member bank or hold on deposit any funds on behalf of any member bank, unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation.'

## SECTION II. DEFINITIONS.

"Within the meaning of this regulation, the term --

"'Member bank' shall include any national bank, State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, or other banking institution which is a member of the Federal Reserve System.

"'Securities' shall include stocks, bonds, debentures and other similar obligations.

"'Dealer in securities' shall include any corporation, partnership, unincorporated association, or individual engaged<sup>1</sup> primarily in the business of purchasing, selling or negotiating securities.

"'Manager' shall include any person who manages, controls, or directs the business of a dealer in securities, or participates in such management or control, either at the main office or at any branch, agency, or other office of such dealer, and shall include any general partner in a partnership which is a dealer in securities; but shall not include a partner in such a partnership who has no voice in the management or control of its business and whose liability is limited to the amount of his contribution to the partnership .

"'Correspondent bank' shall include any member bank which shall act as the medium or agent or in any similar capacity for, or shall

<sup>1</sup>This definition does not include organizations which were formerly engaged in such business but which are not currently engaged in it; because the statute has reference only to the business presently transacted by the organization in question.

"be regularly associated with, a dealer in securities in connection with the purchasing, selling, underwriting, flotation, or negotiation of securities; but shall not include (1) a member bank which shall merely purchase or sell securities without recourse solely upon the order and for the account of its customers, and/or which shall merely purchase or sell investment securities for its own account as authorized by applicable law, through such a dealer in securities, or (2) a member bank which shall merely accept deposits of funds, handle items for collection (with or without securities attached) or perform other ordinary banking functions for such dealer.

"'Correspondent dealer' shall include any dealer in securities which shall perform any banking functions, including the holding on deposit of any funds, on behalf of any member bank, or which shall act as the medium or agent or in any similar capacity for a member bank in connection with the underwriting, flotation, or negotiating of securities, but shall not include a dealer who shall merely execute orders received from or through such member bank for the purchase or sale of securities.

### SECTION III. PROHIBITIONS OF SECTION 32.

"From and after January 1, 1934, unless there is a permit therefor issued by the Federal Reserve Board --

"(1) No officer or director of a member bank can legally serve at the same time as an officer, director or manager of any corporation, partnership or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities.

"(2) No member bank can legally perform the functions of a correspondent bank on behalf of a dealer in securities.

"(3) No dealer in securities can legally perform the functions of a correspondent dealer for any member bank, or hold on deposit any funds on behalf of any member bank.

### SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD.

"(a) In general - Section 32 of the Banking Act of 1933 authorizes the Federal Reserve Board to issue a permit covering any of the relationships which are prohibited by the provisions of that section, if in the judgment of the Federal Reserve Board it is not incompatible with the public interest.

"(b) When obtained - Inasmuch as this exception to the prohibitions of Section 32 applies only when 'there is a permit therefor issued by the Federal Reserve Board', a permit should be obtained before the prohibited relationship is entered into, or before January 1, 1934, whichever is later.

"(c) Application for permission -

"(1) An officer or director of a member bank wishing to obtain a permit from the Federal Reserve Board to serve as an

"officer, director or manager of a dealer in securities should -

"(i) - Make formal application on F. R. B. Form 99a.

"(ii) - Obtain from each member bank a statement on F. R. B. Form 99b.

"(iii) - Obtain from the dealer in securities a statement on F. R. B. Form 99c.

"(iv) - Forward all of these papers to the Federal reserve agent of his district, who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

"If the applicant desires to serve as an officer, director, or manager of more than one dealer in securities, a separate application should be filed with respect to each such dealer in securities. If the applicant desires to serve only one dealer in securities, only one application is necessary even though the applicant desires to serve more than one member bank.

"(2) A member bank wishing to obtain a permit from the Federal Reserve Board to act as correspondent bank for a dealer in securities should -

"(i) - Make formal application on F. R. B. Form 99e.

"(ii) - Submit a statement on F. R. B. Form 99b.

"(iii) - Obtain from the dealer in securities a statement on F. R. B. Form 99c.

"(iv) - Forward all of these papers to the Federal reserve agent of its district who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

"If the applicant member bank desires to act as correspondent bank for more than one dealer in securities, a separate application should be filed by the member bank with respect to each such dealer in securities.

"(3) A dealer in securities wishing to obtain from the Federal Reserve Board a permit to perform the functions of a correspondent dealer for a member bank should -

"(i) - Make formal application on F. R. B. Form 99f, if incorporated, or on F. R. B. Form 99g, if unincorporated.

"(ii) - Submit a statement on F. R. B. Form 99c.

"(iii) - Obtain from the member bank a statement on F. R. B. Form 99b.

"(iv) - Forward all of these papers to the Federal reserve agent of its district, who will attach his recommendation on F. R. B. Form 99d and forward them to the Federal Reserve Board.

"If the applicant dealer in securities desires to act as correspondent dealer for more than one member bank, a separate application should be filed, covering each such member bank.

"(d) Papers to be filed in duplicate - All papers filed with the Federal reserve agent pursuant to this section should be filed in duplicate.

"The forms referred to in this section are made a part of this regulation.

"(e) Compatibility with the public interest - In determining whether

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"the issuance of such a permit will be compatible with the public interest, the Federal Reserve Board will consider -

"(1) Whether the proposed relationship may tend to result in the undue use of bank credit in connection with the purchasing, selling, underwriting, flotation or negotiation of securities.

"(2) Whether the proposed relationship will have any undesirable effect upon the member bank's financial condition, its credit or investment policies, or its policies in dealing with its other customers.

"(3) Any other facts having a bearing upon the effect which the issuance of the permit may have upon the public interest.

"(f) Burden is on applicant - In view of the fact that Section 32 of the Banking Act of 1933 forbids relationships of certain kinds except in cases where the Federal Reserve Board finds the specific relationships not incompatible with the public interest and grants a permit therefor, the burden must rest upon each applicant for such a permit to show to the satisfaction of the Board that it would not be incompatible with the public interest to permit the relationship covered by the application.

"(g) Approval or disapproval - As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

"If the Board approves the application, a formal permit will be issued to the applicant.

"(h) Hearing - If the Board is not satisfied that it is compatible with the public interest to grant such permit, the Board will so notify the applicant and will afford him or it every opportunity to present any additional facts or arguments bearing on the subject before making any final decision in the case.

"(i) Continuing effect of permits - A permit once granted continues in force until revoked, and need not be renewed, unless otherwise stated therein.

"(j) Revocation - All permits, however, are subject to revocation whenever the Federal Reserve Board, after giving reasonable notice to the holder and affording him or it an opportunity to be heard, finds that the public interest requires their revocation."

The Board then considered and acted on the following matters:

Circular memorandum dated October 20, 1933, from the President of the United States stating that, in order to expedite the Community Chest campaign for relief funds in so far as Federal employees are concerned, a Governmental Unit of the Community Chest is being set up, and that, in order that every Federal employee shall be given an opportunity to make a voluntary contribution, the Board is requested to designate a chairman

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to organize and supervise the Community Chest work of the Board.

Upon motion, Mr. Noell, Assistant Secretary, was designated as chairman to organize and supervise the activity in the Board's organization.

Draft of letter to Mr. Peyton, Federal Reserve Agent at Minneapolis, in reply to his letter of October 9, 1933, with which he transmitted a report of a survey which he had made with respect to the advisability of the continuance or discontinuance of the Helena branch of the Federal Reserve Bank of Minneapolis. The proposed letter stated that the report has been brought to the attention of the Board and that a copy is being transmitted to the Federal Reserve Agent at San Francisco for his information with the request that he advise the Board as to his views with respect to the question raised by Mr. Peyton concerning the advisability of the continuance of the Spokane branch of the Federal Reserve Bank of San Francisco if the Helena branch were discontinued. There was also presented a proposed letter to Mr. Newton, Federal Reserve Agent at San Francisco, inclosing a copy of Mr. Peyton's report and requesting that he make a careful study of the question of the advisability of the discontinuance of the Spokane branch of the Federal Reserve Bank of San Francisco if the conclusion should be reached that the Helena branch of the Federal Reserve Bank of Minneapolis should be discontinued, and advise the Board fully as to his views with his reasons therefor. Mr. Miller expressed the opinion that, before sending the proposed letters, the Board should reach a definite decision as to what its general policy will be with regard to the continuance of branches of Federal reserve banks, as well as a decision whether, in accordance with that policy, the Helena and Spokane branches should be discontinued.

After discussion, action was deferred

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pending further consideration of the matter at a meeting of the Board to be held on November 6, 1933.

Telegrams dated October 20, 1933, from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, Mr. Martin, Governor of the Federal Reserve Bank of St. Louis, and Mr. Powell, Chief Statistician of the Federal Reserve Bank of Minneapolis, and letter dated October 20, 1933, from Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, all advising of the establishment at the respective banks on October 20, 1933, of the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1/2%
91 to 120 days	3/4%
121 to 180 days	1%

Without objection, noted with approval.

Telegram dated October 24, 1933, from Mr. Newton, Chairman of the Federal Reserve Bank of San Francisco, advising of the establishment by the executive committee of the bank on that date, of a minimum buying rate of 1/2% for the purchase of bankers' acceptances, and of the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1/2%
91 to 120 days	3/4%
121 to 180 days	1%
Repurchase	1%

The minimum buying rate of 1/2% was approved and, there being no objection, the schedule of effective buying rates was noted with approval.

Telegraphic reply to a telegram dated October 18, 1933, from Mr. Walsh, Federal Reserve Agent at Dallas, transmitting the request of the Southern Arizona Bank & Trust Company, Tucson, Arizona, for an extension of thirty days from November 1, 1933, of the time within which to accomplish



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its admission to membership, and stating that the bank's reason for the request is that there will not be sufficient time before November 1 to solve the problems involved in the contemplated organization of a company to take over the institution's real estate and insurance business in compliance with the Board's condition of membership. The reply stated that the Board grants the extension requested, but would not be disposed to grant any further extension.

Approved.

Letter dated October 25, 1933, to Mr. O'Connor, Comptroller of the Currency, approved by four members of the Board, replying to his memorandum of October 10 recommending approval of a proposed increase in capital of The First National Bank of Okanogan, Washington, from \$50,000 to \$90,000 by the sale of preferred stock locally and subsequent reduction in common capital from \$50,000 to \$10,000. The reply stated that it appears that the bank has not been examined since February 9, 1933, and that, in view of the examiner's classification of the bank's assets and the comments in the report of that examination, it is felt that it would be preferable to have current information as to the bank's condition before passing upon the proposed reduction in common capital. The reply stated also that it is assumed that the bank will be examined again in the near future, and that it would be appreciated, therefore, if the Comptroller would resubmit the matter of the proposed capital reduction to the Board on the basis of such new examination.

Approved.

Reply on October 25, 1933, approved by six members of the Board, to a letter dated October 10 from Mr. Curtiss, Federal Reserve Agent at

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Boston, stating that the Hartford-Connecticut Trust Company, Hartford, Connecticut, a nonmember bank, holds all of the outstanding voting stock of the Hartford-Connecticut Company, Hartford, Connecticut, and carries such stock in its investments for \$200,000, and that the Hartford-Connecticut Company owns a majority of the shares of capital stock of each of four national banks, and requesting advice as to whether the Hartford-Connecticut Trust Company, as well as the Hartford-Connecticut Company, is required to file an application for a voting permit. The reply stated that, assuming that the agent's statement to the effect that the trust company holds all of the voting stock of the Hartford-Connecticut Company means that the trust company owns all of the voting stock of the latter corporation, it would seem clear that the trust company controls indirectly, through the medium of the Hartford-Connecticut Company, a majority of the shares of capital stock of each of the four member banks, and that it is a holding company affiliate of each such bank, as defined in subsection (c) of section 2 of the Banking Act of 1933; and that, accordingly, it follows that under the provisions of section 5144 of the Revised Statutes, as amended, the Hartford-Connecticut Company may not lawfully vote the stock which it owns in the four national banks referred to, unless the Hartford-Connecticut Company and the Hartford-Connecticut Trust Company shall each have first obtained a voting permit from the Board.

Approved.

Reports of Standing Committee dated October 26, 1933, recommending approval of the following changes in stock at Federal reserve banks:

<u>Applications for SURRENDER of stock:</u>	<u>Shares</u>
<u>District No. 2.</u>	
Central National Bank, New Rochelle, N. Y.	
(Decrease in surplus)	60

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<u>Applications for SURRENDER of stock (Cont'd.):</u>	<u>Shares</u>	
<u>District No. 2 (Cont'd.).</u>		
Power City Trust Company, Niagara Falls, N. Y. (Decrease in capital, partly offset by increase in surplus)	1,080	
Crestwood National Bank, Tuckahoe, N. Y. (Being liquidated through conservator)	<u>81</u>	1,221
<u>District No. 7.</u>		
First National Bank, Paxton, Illinois. (Being liquidated through conservator)	90	
Rosedale National Bank, Rosedale, Indiana. (Insolvent)	18	
Citizens National Bank, Romeo, Michigan. (Insolvent)	<u>60</u>	168
<u>District No. 8.</u>		
First National Bank, Nashville, Arkansas. (Decrease in surplus)	1	
First National Bank, Odin, Illinois. (Insolvent)	<u>19</u>	20
<u>District No. 11.</u>		
Madison National Bank, Tallulah, La. (Insolvent)	33	
State National Bank, Alpine, Texas. (Decrease in surplus)	24	
First National Bank, Atlanta, Texas. (Decrease in surplus)	<u>9</u>	66
<u>District No. 12.</u>		
Compton National Bank, Compton, California. (Decrease in surplus)	10	
First National Bank, Astoria, Oregon. (Voluntary liquidation, absorbed by First National Bank of Portland, Oregon.)	84	
Medford National Bank, Medford, Oregon. (Voluntary liquidation, succeeded by Medford National Bank, Medford, Oregon.)	81	
First National Bank, Ritzville, Washington. (Decrease in capital and surplus)	39	
Old National Bank and Union Trust Company, Spokane, Wash. (Decrease in capital and surplus)	<u>360</u>	<u>574</u>
	Total	2,049

Approved.

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Thereupon the meeting adjourned.

O. Fester Mowbray

Secretary.

Approved:

E. R. Shack  
Governor.