A meeting of the Federal Reserve Board was held in Washington on
Wednesday, March 28, 1934, at 10:30 a.m.

PRESENT: Mr. Black, Governor
Mr. Hanlin
Mr. Miller
Mr. James
Mr. Thomas
Mr. Szymczak
Mr. O'Connor

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Bethea, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of Examinations

The Board considered and acted upon the following matters:

Telegram to "The First National Bank of Elgin", Elgin, Illinois, reading as follows:

"Your letter March 23, 1934. Board hereby amends its letter of March 19, 1934, which authorized your bank to exercise full fiduciary powers effective if and when it consolidated with the Elgin City Banking Company, Elgin, Illinois, to make such authorization effective this date. This telegram will be your authority to exercise such powers. Formal certificate covering such authority will be sent you promptly."

Approved.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"In accordance with your recommendation, the Federal Reserve Board approves a reduction in the common capital stock of the 'Peoples National Bank & Trust Company of Belleville', Belleville, New Jersey, from $200,000 to $100,000, pursuant to a plan which provides that the bank's capital shall be increased by $200,000 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others and that the released capital, together with the bank's surplus and undivided profits, shall be used to eliminate a corresponding amount of unsatisfactory assets, all as
"set forth in your memorandum of March 21, 1934.

"In considering the plan under which the reduction in common capital is to be effected, it was noted that securities depreciation remaining in the bank after the proposed adjustments will be sufficient to impair the common capital to the extent of approximately $45,000. It is assumed, however, that you have this condition in mind and that whenever it becomes feasible to do so you will obtain such further corrections as may be practicable."

Approved.

Telegram dated March 27, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, stating that the Board has considered the application of the "President and Directors of the Manhattan Company", New York, New York, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in "The County Trust Company", White Plains, New York, and has authorized the issuance of a limited permit to the applicant for the following purpose:

"To act upon a proposal to reduce the present authorized number of directors of such bank from seventeen to sixteen."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the President and Directors of the Manhattan Company, a limited voting permit in accordance with the telegram.

Approved.

Telegram to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"The Board has approved the request of the Montclair Trust Company, Montclair, New Jersey, contained in its letter of March 17, 1934, for an extension of 90 days in the period of time within which to make the required eliminations as set forth in its agree-

Approved.

Letter prepared in accordance with the action taken at the meeting of the executive committee on March 23, 1934, to the chairmen of all Federal reserve banks, reading as follows:

"Upon their return from the meeting of the board of trustees of the retirement system of the Federal reserve banks, Mr. James and Mr. Van Fossen advised the Board of the decision of the board of trustees to request the Federal reserve banks and the Federal Reserve Board to defray the traveling and subsistence expenses incurred during the first year of the system's operation by the members of the board of trustees and of the various committees of the retirement system. The action of the board of trustees has been considered by the Federal Reserve Board and it has authorized the payment, by the Board's fiscal agent of the expenses of its appointee and of the member elected by its employees, and approves the payment by your bank of the expenses of the representatives of your bank and its employees, on the board of trustees and any committees of the retirement system of which they may be members, for one year from March 1, 1934."

"It is understood that all of the Federal reserve banks have adopted, or will put into effect immediately, the requirement that all new employees pass a physical examination. In view of the fact that all new regular employees of the Federal Reserve Board are required to be members of the retirement system, the Board has adopted a similar requirement."

Approved.

Letter dated March 27, 1934, approved by four members of the Board, to Mr. Curtiss, Chairman of the Federal Reserve Bank of Boston, reading as follows:

"Referring to your letter of March 1, the Federal Reserve Board approves the action taken by your directors at their meeting on February 21 in voting that a contribution be made to the Federal Reserve Society to be expended by the Society for welfare and educational work among the employees of the bank, the amount of such contribution to be approximately the
"same as the aggregate amount of the dues paid by the members of the Society in 1933. In this connection the Board notes from your letter that the dues paid by the members of the Society in 1933 aggregated about $2,000; also that for several years up to December, 1931, it was the usual practice of the directors to authorize an annual contribution of $2,500 to the Society."

Approved.

Telegram dated March 27, 1934, approved by four members of the Board, to Mr. Fleming, Deputy Governor of the Federal Reserve Bank of Cleveland, reading as follows:

"Your letter March 23rd to Mr. James has been brought to attention of Board and it will interpose no objection to proposed continuance of contributory insurance plan with understanding that expenditure on part of Federal reserve bank will be less than $100 for one year beginning April 1, 1934. As it is understood that other Federal reserve banks are also giving consideration to question of policy involved in continuance of this form of insurance it is assumed that situation will be reviewed and matter brought to Board's attention in ample time for further consideration before expiration of the new contract if it should then be desired to continue it or any substitute in force."

Approved.

Letter to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Reference is made to Mr. Sargent's letter of February 23, 1934, regarding the procedure followed in submitting reports of audits, which was reported to be as follows:

1. Reports covering the various operating departments of Head Office to be addressed to the Cashier of the bank; any suggestions as to change in procedure or practice to be incorporated therein.

2. Reports covering losses of any kind or unusual transactions to be reported to the Chairman of the Board.

3. Reports submitted at the close of business June 30 and December 31 each year, covering a resume of the semi-annual period, to be addressed to the Chairman of the Board; these reports to include a statement to the effect that periodic audits had been made of all departments."
"4. With the inauguration of branch auditing, it was decided that the semi-annual audit reports of each branch be addressed to the Chairman of the Board.

"An auditor of a Reserve Bank is responsible through the Chairman of the Board to the Board of Directors, and, while the procedure as outlined is quite complete, the Board feels that it should be carried one step farther and that reports of all audits should be submitted to the Chairman of the Board, copies being furnished, if desired, to the proper operating officers."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Receipt is acknowledged of your letter of January 26, 1934, together with its inclosures, regarding the question whether the payment of interest is required under State law on deposits of public funds made by or on behalf of the State of Mississippi.

"It appears that Section 4328 of the 1930 Mississippi Code requires that State funds shall be placed on deposit with the banks proposing the best terms, having in view the safety of such funds; and that Section 4324 provides that any bank receiving deposits from the State Treasurer shall be required to pay to the State for the privilege of holding them, not less than the amount agreed to be paid on such deposits, subject to such regulations as are imposed by law and rules adopted by the State Treasurer.

"On the basis of the information submitted, the Board sees no reason for differing from the conclusion reached by counsel for your bank that the payment of interest is required under State law with respect to State funds of the State of Mississippi within the meaning of Section 19 of the Federal Reserve Act, which excepts from the prohibition upon the payment of interest on deposits payable on demand deposits of public funds with respect to which the payment of interest is required under State law.

"It is understood that similar statutory provisions are applicable to deposits of county funds, and, if so, payment of interest on such funds would also come within the exception aforesaid."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:
"Receipt is acknowledged of your letter of March 5, 1934, together with its inclosures, in regard to the question whether the payment of interest is required under State law with respect to certain public funds in the State of North Dakota.

"It is understood that the funds of the State of North Dakota are not here involved and, therefore, no opinion is here expressed upon the question whether the provisions of Section 714a10 Supp. of the Compiled Laws of North Dakota, require the payment of interest with respect to such funds within the meaning of Section 19 of the Federal Reserve Act as amended.

"In connection with public funds other than those of the State of North Dakota, it is noted that Section 714a13 Supp. of the Compiled Laws of North Dakota, provides as follows:

'The rate of interest on all public funds de-
posited as herein provided shall not exceed two per
cent on daily balances subject to check or draft,
credited monthly, and shall not exceed four per cent
on time deposits. It is the intention of this act
that depositories of public funds in this State
shall pay substantially the same rate of interest
thereon as such banks pay to individual depositories
upon individual deposits.'

"It is observed from the opinion of your counsel that the law formerly prescribed a minimum rate of interest which might be paid on such funds, but this requirement was repealed in 1931 and the statute was amended to read as above set forth. Moreover, the clause regarding the intention of the Act with respect to the payment of interest deserves consideration in this connection; and it would appear to be in conformity with the intention therein expressed that no interest be paid on public funds in cases in which banks discontinue paying interest upon individual deposits, irrespective of the reason for such discontinuance.

"In view of these considerations, the Federal Reserve Board concurs in the conclusions reached by your counsel and by the Assistant Attorney General of the State of North Dakota to the effect that the payment of interest on such deposits is not "required under State law" within the meaning of Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Governor McKinney of the Federal Reserve Bank of Dallas, reading as follows:

"This refers to your letter of January 5, 1934, together with its inclosures, regarding the question whether the Herring
"National Bank of Vernon, Texas, may lawfully pay interest on deposits of the City of Vernon which are payable on demand. The determination of the question presented depends upon whether the payment of interest upon the funds in question is required under State law within the meaning of Section 19 of the Federal Reserve Act, as amended.

"Under Article 2559 of Vernon's Annotated Texas Statutes the governing body of every city, town and village in the State of Texas is authorized to receive sealed proposals for the custody of city funds from any bank or banker that may desire to be selected as a depository, and it is provided therein that any bank or banker desiring to bid shall deliver to the City Secretary within a certain period after notice that bids will be received a sealed proposal stating the rate per cent upon daily balances that such bidder 'offers' to pay to the city, town or village for the privilege of being made depository of the funds. Article 2560 of said statute provides that the governing body shall select as a depository of such funds the bank or banker offering to pay the largest amount for such privilege, but the governing body is specifically given the right to reject any and all bids and to readvertise for new proposals. It is understood that it is the opinion of your counsel that if the governing body of a city should deposit city funds without attempting to obtain the payment of interest thereon, such action would constitute a violation of the duty imposed upon such governing body by the aforementioned provisions of State law, but it appears that the governing body is under no duty to deposit such funds in accordance with the procedure set forth therein, and that circumstances might arise in which it would be permissible for the governing body to deposit such funds in banking institutions without interest.

"As you know, the Board ruled in its letter of December 9, 1933, that the payment of interest on funds of the City of Dallas is not required by the provisions of the charter of that city. In that connection, it will be recalled that the Board stated that, although Article 2559 of the Texas Statutes appears to authorize a city to receive proposals from banks stating the rate which will be paid on daily balances of city funds, the procedure prescribed therein apparently is not mandatory as it was not followed by the City of Dallas.

"In view of the foregoing and of the general rule that an exception to a statutory provision should be strictly construed, it is the view of the Federal Reserve Board that the payment of interest with respect to deposits of funds of the City of Vernon made in accordance with the procedure set forth in Articles 2559 and 2560 of Vernon's Annotated Texas Statutes is not required under the law of that State within the meaning of Section 19 of the Federal Reserve Act, as amended, and, accordingly, a member bank may not lawfully pay interest on such deposits which are payable on demand."

Approved.
Letter dated March 27, 1934, approved by five members of the Board, to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to Mr. Sargent's letter of January 26, 1934, regarding the payment of time certificates of deposit before their maturity in violation of Section IV(b) of the Federal Reserve Board's Regulation Q. Mr. Sargent states that it has come to your attention that when the owners of time certificates of deposit issued by a certain member bank present them for payment before maturity, arrangements are made by this member bank with another member bank to purchase or discount these certificates and hold them until their maturity; and it is understood that you wish to be advised whether such procedure constitutes an evasion of the prohibition against the payment of time certificates of deposit before maturity and also whether a violation of the law would result where the purchasing bank, in good faith, deals directly with the drawee of the certificate without the knowledge and solicitation of the issuing bank.

"It is the opinion of the Board that the mere sale by a depositor before maturity of a time certificate of deposit held by him to a bank other than the bank issuing such certificate would not necessarily come within the prohibition against the payment of time deposits before maturity, but, if the member bank issuing such certificate should solicit the other bank to purchase the certificate with the intent to evade such prohibition and to make available to the depositor in substance the funds evidenced by the certificate, or if the purchase should be made pursuant to an arrangement or understanding between the bank purchasing the certificate and the bank issuing the same, it is the opinion of the Board that such a transaction would constitute an evasion of the spirit and intent of Section 19 of the Federal Reserve Act and of the Board's Regulation Q, and that it should be regarded as a violation of the prohibition of the provision of law forbidding the payment of time deposits before maturity.

"In the final analysis, the question whether a sale by the holder before maturity of a time certificate of deposit to a bank other than the member bank issuing the same comes within the prohibition of the law against the payment of time deposits before maturity depends upon whether the sale is made in good faith or for the purpose of evading the prohibition in question. It is not believed that any general rule can be prescribed to govern all cases, and each case should be determined on the basis of its own particular facts. It would not be practicable for the Board to undertake to determine such questions as they may arise in individual cases,"
"and the Federal Reserve Board feels that the question whether any such transaction should be regarded as a payment of a time deposit before maturity is a matter to be considered by the member bank at the time such transaction is proposed and to be determined by such bank in the exercise of its best judgment and in the light of the provisions of the law and of the Board's regulations. However, if the circumstances with respect to any such transaction are such as to raise a question as to whether it constitutes a violation of the prohibition against the payment of time deposits before maturity, the bank must be prepared to show clearly that such transaction was not in contravention of the provision of law aforesaid."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"In your letter of November 15, 1933, in which you inclose a copy of a letter from Messrs. Root, Clark, Buckner and Ballantine, the question is raised whether Section 32 of the Banking Act of 1933 is applicable to certain officers and directors of the Bank of the Manhattan Company who are also directors of various New York bond and mortgage companies which are now in the hands of the State Superintendent of Insurance. It appears that, under the provisions of the New York statute, the directors of the bond and mortgage companies are enjoined by court orders from interfering in any manner in the management of the companies which are in the hands of the Superintendent as Rehabilitator. Messrs. Root, Clark, Buckner and Ballantine suggest that, although the directors in question still bear the title of their office, they should not be regarded as 'officers, directors or managers' within the meaning of Section 32.

"The Board is of the opinion that the words quoted have reference to persons who manage, direct, or control the affairs of a corporation or who have authority to do so, and that, if a person bearing the title of director has been deprived by law or by court order of all power of control and management, the section is not applicable to him.

"However, the Board has not been furnished with sufficient information regarding the practical effect of the statutory provisions and court orders referred to by Messrs. Root, Clark, Buckner and Ballantine to be able to decide definitely whether Section 32 is still applicable to the directors in question. Possibly, the preceding discussion will enable you to answer the question raised; but, if you desire a definite ruling, it would be appreciated if you would submit the matter to the Board with such additional information and comments as the counsel for your bank may deem necessary.
"in the light of this letter."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. R. E. Shepherd, Vice President of Montgomery Investors, Inc., Norristown, Pennsylvania, reading as follows:

"Reference is made to your letter of August 15, 1933, regarding the applicability of Section 32 of the Banking Act of 1933 to the service of directors of member banks of the Federal Reserve System as directors of Montgomery Investors, Inc.

"It appears from the information contained in your letter and from the sample contract inclosed by you that Montgomery Investors, Inc., is an organization engaged primarily in effecting the sale on the installment plan of shares of Nation-Wide Securities Company. Under the circumstances, it would seem that Montgomery Investors, Inc., is a corporation 'engaged primarily in the business of purchasing, selling, or negotiating securities' and that the service of directors or officers of member banks as directors or officers of that corporation would be prohibited by the provisions of Section 32 unless such service were covered by permits issued by the Federal Reserve Board.

"In the circumstances, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, who will be in a position to advise you further regarding the necessity of obtaining permits and the procedure to be followed in making application therefor."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. Cyrus H. Adams, Chicago, Illinois, reading as follows:

"The Federal Reserve Board has given consideration to your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of First National Bank of Lake Forest, Lake Forest, Illinois, and as officer and director of Lee Higginson Corporation, a dealer in securities, of Chicago, Illinois.

"The Federal Reserve Board has reached the conclusion that it was the intent of the Congress in enacting Section 32 to terminate all relationships of certain types between member banks and dealers in securities, apparently because it felt that such relationships might tend to influence the banks' credit and investment policies and their advice to their correspondent banks and other customers respecting investments in
"a manner which the Congress deemed to be incompatible with the public interest. The Board accordingly feels that it may not properly grant permits authorizing relationships which are actually of the kind referred to in that section, and that its authority to issue permits should be exercised only in exceptional cases; for example, those which are included within the literal terms of the statute but which are actually of a kind different from those at which its provisions were directed.

"It appears that Lee Higginson Corporation is primarily engaged in the underwriting and distribution of securities and that, therefore, the relationship covered by your application is within the class which that section was designed to terminate. Accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant your application, even though nothing has been called to its attention which would reflect in any degree upon your desirability as a director of the bank, except that the relationship covered by your application is within the prohibitions of Section 32.

"In the event that you desire to submit further facts or arguments in support of your application, the Board is prepared to give them careful consideration. However, any such additional facts or arguments should be submitted as promptly as possible, in writing, through the Federal Reserve Agent."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, to Mr. David A. Edgar, Milwaukee, Wisconsin, reading as follows:

"The Federal Reserve Board has given consideration to your application under Section 32 of the Banking Act of 1933 for a permit to serve at the same time as a director of the Marine National Exchange Bank of Milwaukee, and as director and officer of Edgar, Ficker & Company, a dealer in securities, both of Milwaukee, Wisconsin.

"The Federal Reserve Board has reached the conclusion that it was the intent of the Congress in enacting Section 32 to terminate all relationships of certain types between member banks and dealers in securities, apparently because it felt that such relationships might tend to influence the banks' credit and investment policies and their advice to their correspondent banks and other customers respecting investments in a manner which the Congress deemed to be incompatible with the public interest. The Board accordingly feels that it may not properly grant permits authorizing relationships which are actually of the kind referred to in that section, and that its authority to issue permits should be exercised only in exceptional
"cases; for example, those which are included within the literal terms of the statute but which are actually of a kind different from those at which its provisions were directed.

"It appears that Edgar, Ricker & Company is primarily engaged in the purchasing, selling, and negotiating of securities and that therefore the relationship covered by your application is within the class which that section was designed to terminate. Accordingly, the Board is unable to find that it would not be incompatible with the public interest as declared by the Congress to grant your application, even though nothing has been called to its attention which would reflect in any degree upon your desirability as a director of the bank, except that the relationship covered by your application is within the prohibitions of Section 32.

"In the event that you desire to submit further facts or arguments in support of your application, the Board is prepared to give them careful consideration. However, any such additional facts or arguments should be submitted as promptly as possible, in writing, through the Federal Reserve Agent."

Approved.

Letter dated March 27, 1934, approved by five members of the Board, reading as follows:

"Your letter of January 19, 1934, and the previous correspondence regarding the application of Mr. Farwell Winston under Section 32 of the Banking Act of 1933, raises primarily the question whether the carrying of what are commonly known as margin accounts by brokers involves the making of 'loans secured by stock or bond collateral' within the meaning of Section 8A of the Clayton Act.

"As you state in your letter, if the relationship covered by Mr. Winston's application is prohibited by Section 8A of the Clayton Act, a permit issued under Section 32 of the Banking Act of 1933 would serve no useful purpose. See the Board's letter of December 22, 1933 (X-7734).

"It appears from your letter and the inclosures, including a copy of the letter of the General Counsel of your bank, and of the forms used in connection with such transactions by the brokerage firm in which Mr. Winston is a partner, that the margin accounts are carried in substantially the following manner:

"The customer deposits with the broker margin in the form of cash or securities, and orders the broker to purchase or sell certain securities for him. The broker executes the order and furnishes the balance required for the execution of the order. The securities are
acquired or sold by the broker for the account and risk of the customer, but all securities in the account are held by the broker. The customer authorizes the broker to pledge, as collateral for any indebtedness of the broker, all securities thus held by the broker, and such pledge may be for a greater sum than the amount which the customer owes to the broker. The broker usually avails himself of this right, in whole or in part, in order to supply himself with funds with which to carry out the orders thus received from his customer. The broker has the right to close the customer's account by sale or purchase, as the case may be, whenever he deems it necessary to protect himself from loss on the customer's obligation. Since the securities are purchased or sold for the account and risk of the customer, he is liable to the broker for any deficiency remaining after the closing of the account. Likewise, any appreciation in the value of the securities bought and any income therefrom during the life of the account are the property of the customer. Securities thus held by the broker for the account of the customer, except those issued in bearer form, are usually issued in the name of a broker and indorsed in blank in order to facilitate handling.

"After careful consideration, the Federal Reserve Board has reached the conclusion that the opinion of your counsel is correct that, in carrying margin accounts in which are held stocks or bonds in the manner described above, the broker makes loans to his customers 'secured by stock or bond collateral' within the meaning of Section 8A of the Clayton Act, and that therefore that section will be applicable to the service of Mr. Winston as a director of the national bank and as a partner in the brokerage firm.

"Additional support for this view is furnished by the legislative history of the Banking Act of 1933 and of Section 33 of that Act, which added Section 8A to the Clayton Act, since it appears that one of the primary purposes of that Act was to check the excessive diversion of credit from commerce and industry to speculative uses on stock exchanges. Margin accounts, and the brokers' loans by which they were financed to a large extent, constituted some of the principal ways in which credit was made available for such speculation; and therefore an interpretation of Section 8A based on the conclusion that the carrying of margin accounts does not involve the making of loans secured by stock or bond collateral within the meaning of that section would defeat, in a large measure, its purpose.

"Although the Board is authorized to issue permits under certain circumstances covering relationships otherwise prohibited by any provision of the Clayton Act, the provision of Section 8 which authorizes the Board to issue permits refers only to banking institutions of certain classes, with the result that, unless the brokerage firm of which Mr. Winston is a partner is such an institution, the Board would have no authority to issue such a permit."

Approved.
Mr. Hamlin, as Chairman of the Committee on District No. 3, reported that the Committee met yesterday following the meeting of the Board with the directors of the Federal Reserve Bank of Philadelphia and decided to recommend to the Board that the Philadelphia bank be advised that the Federal Reserve Board is still of the opinion that the official staff of the bank needs strengthening, but that as the board of directors feel that no changes, other than those recommended by the directors, are necessary at the present time, and as they are primarily responsible for the satisfactory operation of the bank, the Board approves the salaries fixed by the directors at the annual rates shown below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. A. McIlhenny</td>
<td>Deputy Governor, Cashier, and Secretary</td>
<td>$13,200</td>
</tr>
<tr>
<td>W. J. Davis</td>
<td>Assistant Deputy Governor</td>
<td>10,000</td>
</tr>
<tr>
<td>L. E. Donaldson</td>
<td>Assistant Deputy Governor</td>
<td>5,000</td>
</tr>
<tr>
<td>G. K. Morris</td>
<td>Assistant Cashier</td>
<td>5,000</td>
</tr>
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In connection with the committee report, Mr. Morrill read a memorandum submitted to the committee by Mr. Drinnen, Federal Reserve Examiner, under date of March 28, 1934.

The salaries above referred to were voted on separately and approved, Messrs. Miller and Szymczak voting "no" on the salaries of Messrs. McIlhenny and Donaldson, and the Secretary was requested to prepare a letter to Mr. Austin, Chairman of the Philadelphia bank, in accordance with the recommendation of the Committee on District No. 3.

Mr. James stated that, in accordance with the action taken at the meeting of the Board yesterday, he and Mr. Szymczak had met as a committee and had considered the telegram received from Governor Calkins under date of March 26, 1934, with regard to applications for membership from banks
in Alaska and Hawaii; that the committee had reviewed the report of
examination of the First National Bank of Ketchikan, Alaska, made as of
July 22, 1932, and the information submitted in October 1933 by the
cashier of the bank to the Federal Reserve Bank of San Francisco; that,
as it is apparent that no material change has taken place in the unsatis-
factory condition of the bank since the last examination, the committee
felt that no useful purpose would be served in making another examination
at this time in connection with the bank's application for membership; and
that the committee desired to recommend that it be suggested to Governor
Calkins that he discuss the matter with the cashier of the national bank
with the thought that he will prefer to withdraw the application, which
would obviate the necessity of the Board's taking adverse action with re-
gard thereto, it being understood that this action will not prevent the
bank filing an application for membership at a later date when improvement
in its condition warrants consideration of such application. Mr. James
added that, apparently, the only reason the bank has for desiring member-
ship is in order to become eligible for insurance of deposits by the Federa-
al Deposit Insurance Corporation.

The recommendation of the committee was
approved, Mr. Thomas voting "no".
In explanation of his vote Mr. Thomas
stated that he felt the Federal Reserve Board
should admit to membership as many banks as
the condition of the applicants will permit,
and that for that reason the matter should be
left open and the application of the bank con-
sidered on the basis of a current report of
examination.

Mr. James called attention to the fact that according to the advice
contained in Governor Calkins' telegram, counsel for the Federal Reserve
Bank of San Francisco will return from Hawaii on March 29, and if he has any additional information with regard to banks in that territory Governor Calkins will forward it to the Board for consideration.

With regard to the informal request from the Reconstruction Finance Corporation for an expression from the Board as to what its position would be upon an application for membership from a new national bank to be organized in the Virgin Islands, Mr. James stated that the committee felt that the Federal Reserve System would not be in a position to make available to the proposed new bank the services which are incident to the membership of banks in the United States and that apparently the only reason for the filing of the application would be to comply with the condition imposed by the Reconstruction Finance Corporation that the bank become a member of the System.

After discussion, Mr. Szymczak moved that the Reconstruction Finance Corporation be advised informally that, in the absence of a formal application and the information which should be supplied to the Board in connection therewith, the Board is unable to express any opinion with regard to the admission of the bank to membership, but that it will be glad to give careful consideration to an application if and when submitted.

Carried.

Mr. Szymczak stated that the committee had also given consideration to the advisability of continuing the employment of Mr. Pole as Special Adviser to the Board and had decided to submit the matter to the Board for its decision.

At the conclusion of the ensuing discussion, it was decided that, in the absence of developments
requiring the continuation of the services of Mr. Pole, his employment will be terminated on April 13, 1934.

Reference was made to the memorandum dated March 16, 1934, from Mr. James, which was considered at the meeting of the Executive Committee on March 23, and Mr. James stated that, at the request of the Comptroller of the Currency, Mr. William P. Folger, Chief National Bank Examiner, discussed with him (Mr. James) yesterday the matter of the organization in the office of the Comptroller of the Currency of a department for the supervision of the examination of trust departments of national banks, and that Mr. Folger had advised that the Comptroller's office was undertaking to build up such a department, but that the office had been so busy with other matters during the past year or more that little had been accomplished in that direction and that, while additional examiners had been employed who have special qualifications for making such examinations, no report could be made at this time as to when the organization of the department would be effected. Mr. Folger had also stated, Mr. James said, that he realized fully the responsibility of the Comptroller's office in seeing that adequate examinations of trust departments are made and that active consideration would be given to the organization of a department for the supervision of that work.

At the request of Mr. O'Connor, Mr. F. G. Awalt, Deputy Comptroller of the Currency, and Mr. Folger were invited into the meeting and the steps being taken by the Comptroller's office to discharge its responsibility in connection with the examination of trust departments of national banks were
reviewed, it being pointed out by Mr. Awalt that, because of the banking holiday and the demand made upon national examiners in connection with the examinations made by the Federal Deposit Insurance Corporation, the plans for the establishment of an adequate procedure for the examinations of trust departments had not been fully formulated. Mr. O'Connor stated that during the past seven months his office had been conducting a campaign in an attempt to obtain a discontinuance of the practice of banks investing trust funds in securities purchased from their commercial departments, and that considerable progress had been made in this regard.

Some of the members of the Board expressed the opinion that there is a definite responsibility on the part of the Federal Reserve Board in regard to securing adequate examinations of trust departments of national banks, and suggested that the Board would be willing to cooperate with the Comptroller's office in setting up a procedure to provide for the making of such examinations. In this connection, it was pointed out that under the provisions of the last paragraph of section 21 of the Federal Reserve Act, as amended, the Comptroller of the Currency is required to assess against national banks exercising trust powers the cost of examining the trust departments, and it was stated by Mr. Folger that provision had been made for taking care of the expense of this work.

At the conclusion of the discussion, it was understood that the Comptroller's office would take immediate steps to complete the plans which have been under consideration for the establishment of a department for the supervision of examinations of trust departments of national banks, and that the Board would be advised currently of the action taken in this connection.
Reference was made again to the question of the action to be taken with regard to the three employees whom the Board agreed to continue on the payroll of the Federal Reserve Issue and Redemption Division for a further period of three months from January 1, 1934, in order to afford the Comptroller of the Currency an opportunity to arrange to transfer them to the payroll of his office. Mr. Awalt stated that the Comptroller’s office had been unable to obtain the necessary appropriation to cover the salaries of the employees; that it was planned to reorganize certain divisions in the Comptroller’s office, which would make it possible to dispense with the service of these employees in the Issue Division of that office so that they could be returned to the Federal Reserve Issue and Redemption Division, but, inasmuch as their services are not needed in that Division, arrangements might be made to transfer one of them to the Insolvent Banks Division of the Comptroller’s office as a comptometer operator, and that it might be possible to make provision for one of the other two.

At the conclusion of the ensuing discussion, Messrs. James and O’Connor were appointed a committee to look into the matter and submit a recommendation to the Board as to the manner in which it should be disposed of.

Messrs. Awalt and Folger left the meeting at this point.

Mr. James, Chairman of the Committee on District No. 11, referred to the resignation submitted under date of January 30, 1934, of Mr. E. A. Feden, as a director of the Houston branch of the Federal Reserve Bank of Dallas, and recommended appointment by the Board of Mr. W. K. Morrow,
President of the Standard Rice Milling Company, as a director of the branch for the unexpired portion of the term ending December 31, 1936, to succeed Mr. Peden. He also stated that in a letter addressed to the Board by Mr. Walsh, Chairman of the Board of Directors of the Federal Reserve Bank of Dallas, under date of February 7, 1934, Mr. Morrow was named as the first suggestion of the board of directors of the Dallas bank as a successor to Mr. Peden, and that he had discussed the matter with other parties in the Houston territory who recommended the appointment of Mr. Morrow as a representative of the rice milling industry.

Mr. Thomas, the other member of the Committee on District No. 11, stated that the letter dated February 7 from the Chairman of the Federal Reserve Bank of Dallas, transmitting the resignation of Mr. Peden and listing Mr. Morrow as first suggestion of the directors, had been received in the Board's offices and referred to him during the absence of Mr. James, not knowing anyone in the Houston territory with whom he could confer, he had discussed the matter with Mr. Jesse Jones, Chairman of the Reconstruction Finance Corporation, who had recommended Mr. Sam Taub, of Houston, who is in the wholesale tobacco business; that upon receipt of this recommendation he had discussed Mr. Taub with Mr. Walsh and Governor McKinney, who advised that Mr. Taub previously had been considered for appointment by the Dallas bank as a director of the Houston branch but was thought to be ineligible as he was at that time a director of a commercial bank, that his name had been inadvertently omitted from the letter of February 7, and that it was felt he would be a desirable director. Mr. Thomas then stated that, in view of these circumstances, he desired to
recommend Mr. Taub for appointment as a successor to Mr. Peden.

Governor Black stated that the names of Mr. W. K. Morrow and Mr. Sam Taub were in nomination for appointment as a director of the Houston branch of the Federal Reserve Bank of Dallas for the unexpired portion of the term ending December 31, 1936. Votes were cast by the members present with the following result:

For Mr. Taub: Messrs. Miller, Thomas, Szymczak and O'Connor.

For Mr. Morrow: Governor Black, Messrs. Hamlin and James.

Governor Black declared Mr. Taub elected as a director of the Houston branch for the unexpired portion of the term ending December 31, 1936.

Mr. Morrill then presented a memorandum dated March 27 from Mr. Mooney, chief telegraph operator, reporting that Mr. James E. Tanner, an operator in the Washington office, reported for duty yesterday morning under the influence of liquor. Mr. Morrill stated that, in view of the circumstances set forth in the memorandum, it is recommended that, as a disciplinary measure, Mr. Tanner be furloughed for one month without salary beginning March 27, and that he be advised definitely that a repetition of the offense will not be countenanced under any circumstances and will result in immediate dismissal. Mr. Morrill also stated that if the above recommendation were approved it would be necessary to engage an operator to take Mr. Tanner's place during his absence, authority for which was requested.

Recommendation approved and authority for temporary employment of another operator granted.

There were then presented the following applications for original or additional stock, or for the surrender of stock, of Federal reserve banks:
### Application for ORIGINAL Stock:

**District No. 4.**
- National Bank of Union City, Union City, Pennsylvania
  - Shares: 74

### Applications for ADDITIONAL Stock:

**District No. 9.**
- The First National Bank of Appleton, Appleton, Minnesota
  - Shares: 1
- Security National Bank of Hopkins, Hopkins, Minnesota
  - Shares: 15
- The Continental National Bank of Harlowton, Harlowton, Montana
  - Shares: 6
- The First National Bank of Groton, Groton, South Dakota
  - Shares: 40

**District No. 12.**
- Bank of Southern Utah, Cedar City, Utah
  - Shares: 30

Total: 70

### Applications for SURRENDER of Stock:

**District No. 1.**
- The First National Bank of Fort Kent, Fort Kent, Maine
  - Shares: 78
- Farmers National Bank in Houlton, Houlton, Maine
  - Shares: 72
- The Berlin National Bank, Berlin, New Hampshire
  - Shares: 270

**District No. 2.**
- The First National Bank of Trenton, Trenton (Barneveld P.O.) New York
  - Shares: 32
- The Westside National Bank of West Paterson, West Paterson, New Jersey
  - Shares: 68
- The National Bank of Newport, Newport, New York
  - Shares: 139

**District No. 4.**
- First National Bank in Carrollton, Carrollton, Ohio
  - Shares: 75
- The National Bank of Union City, Union City, Pennsylvania
  - Shares: 120
- The First National Bank of Moundsville, Moundsville, West Virginia
  - Shares: 237

**District No. 5.**
- The Farmers National Bank & Trust Co. of Winston-Salem, Winston-Salem, N. C.
  - Shares: 360
### Applications for SURRENDER of Stock: (Continued)

<table>
<thead>
<tr>
<th>District No.</th>
<th>Bank Name</th>
<th>Shares</th>
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<tbody>
<tr>
<td>7</td>
<td>The Galva First National Bank, Galva, Illinois</td>
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<td></td>
<td>The First National Bank of Cresco, Cresco, Iowa</td>
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<td>8</td>
<td>The First National Bank of Mansfield, Mansfield, Arkansas</td>
<td>20 104</td>
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<tr>
<td></td>
<td>The Security National Bank of Jackson, Jackson, Tennessee</td>
<td>34 104</td>
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<tr>
<td>10</td>
<td>The Farmers National Bank of Cherokee, Cherokee, Oklahoma</td>
<td>30 47</td>
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<td></td>
<td>The First National Bank of Waynoka, Waynoka, Oklahoma</td>
<td>17 47</td>
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<tr>
<td>11</td>
<td>The Pearsall National Bank in Pearsall, Pearsall, Texas</td>
<td>21 21</td>
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<td></td>
<td><strong>Total</strong></td>
<td><strong>1,289</strong></td>
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</tbody>
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Approved.

Thereupon the meeting adjourned.

Approved:

**Governor.**

Signed:**

**Secretary.**