

A meeting of the Federal Reserve Board was held in Washington on Tuesday, June 26, 1934, at 1:00 p. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Martin, Assistant to the Governor
Mr. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Wyatt, General Counsel
Mr. Vest, Assistant Counsel

Reference was made to the action taken by the Federal reserve agents and governors at the meeting this morning in approving unani- mously, with certain proposed amendments, the tentative draft of Regu- lation S, regarding discounts, purchases, loans and commitments by Federal reserve banks to provide working capital, and the question was raised as to the desirability of the Board's adopting the sugges- tion that the paragraph of the regulation placing a limitation on the periods for which commitments may be made by Federal reserve banks should be eliminated.

After discussion, during which it was expressed as the feeling of a majority of the members that the limitation should not be imposed, Mr. Szymczak moved that the suggestion of the agents and governors that the paragraph referred to be eliminated be approved.

Carried.

Mr. Wyatt stated that there is in force an executive order of

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the President which requires that all bids and contracts entered into by any instrumentality or agency of the United States or any Government-controlled corporation shall contain a clause requiring the other party to the contract to comply with the requirements of the National Industrial Recovery Act, and that the Reconstruction Finance Corporation has placed such a requirement in its regulation covering industrial loans.

Mr. Wyatt stated that, while the question is not entirely free from doubt, he is of the opinion that the executive order does not apply to Federal reserve banks; because (1) they are not departments of the Government; (2) they are not Government corporations; and (3), while they act sometimes as agencies of the Government in connection with bond issues, the payment of Treasury checks and warrants, and similar fiscal transactions, they would not be acting as agencies of the Government in making loans to industry but would be performing purely banking functions. In accordance with this view, Mr. Wyatt stated, a provision similar to that contained in the regulations of the Reconstruction Finance Corporation had not been incorporated in the draft of Regulation S.

Upon motion by Mr. James, Regulation S, as amended in accordance with the suggestions of the Federal reserve agents and governors, was approved in the following form, effective immediately, and, in order that there might be no delay in getting the regulation in the hands of the Federal reserve banks, the Secretary was authorized to send copies thereof to the banks immediately with the suggestion that they have a sufficient number of copies printed to meet their respective needs:

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"REGULATION S, SERIES OF 1934

"DISCOUNTS, PURCHASES, LOANS AND COMMITMENTS BY FEDERAL RESERVE BANKS TO PROVIDE WORKING CAPITAL FOR ESTABLISHED INDUSTRIAL OR COMMERCIAL BUSINESSES.

"SECTION I. STATUTORY PROVISIONS.

"Section 13b of the Federal Reserve Act as amended by the Act of June 19, 1934, reads in part as follows:

"SEC. 13b. (a) In exceptional circumstances, when it appears to the satisfaction of a Federal Reserve bank that an established industrial or commercial business located in its district is unable to obtain requisite financial assistance on a reasonable basis from the usual sources, the Federal Reserve bank, pursuant to authority granted by the Federal Reserve Board, may make loans to, or purchase obligations of, such business, or may make commitments with respect thereto, on a reasonable and sound basis, for the purpose of providing it with working capital, but no obligation shall be acquired or commitment made hereunder with a maturity exceeding five years.

"(b) Each Federal Reserve bank shall also have power to discount for, or purchase from, any bank, trust company, mortgage company, credit corporation for industry, or other financing institution operating in its district, obligations having maturities not exceeding five years, entered into for the purpose of obtaining working capital for any such established industrial or commercial business; to make loans or advances direct to any such financing institution on the security of such obligations; and to make commitments with regard to such discount or purchase of obligations or with respect to such loans or advances on the security thereof, including commitments made in advance of the actual undertaking of such obligations. Each such financing institution shall obligate itself to the satisfaction of the Federal Reserve bank for at least 20 per centum of any loss which may be sustained by such bank upon any of the obligations acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with regulations of the Federal Reserve Board: Provided, That in lieu of such obligation against loss any such financing institution may advance at least 20 per centum of such working capital for any established industrial or commercial business without obligating itself to the Federal Reserve bank against loss on the amount advanced by the Federal Reserve bank: Provided, however, That such advances by the financing institution and

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"the Federal Reserve bank shall be considered as one advance, and repayment shall be made pro rata under such regulations as the Federal Reserve Board may prescribe.

"(c) The aggregate amount of loans, advances, and commitments of the Federal Reserve banks outstanding under this section at any one time, plus the amount of purchases and discounts under this section held at the same time, shall not exceed the combined surplus of the Federal Reserve banks as of July 1, 1934, plus all amounts paid to the Federal Reserve banks by the Secretary of the Treasury under subsection (e) of this section, and all operations of the Federal Reserve banks under this section shall be subject to such regulations as the Federal Reserve Board may prescribe.

"(d) For the purpose of aiding the Federal Reserve banks in carrying out the provisions of this section, there is hereby established in each Federal Reserve district an industrial advisory committee, to be appointed by the Federal Reserve bank subject to the approval and regulations of the Federal Reserve Board, and to be composed of not less than three nor more than five members as determined by the Federal Reserve Board. Each member of such committee shall be actively engaged in some industrial pursuit within the Federal Reserve district in which the committee is established, and each such member shall serve without compensation but shall be entitled to receive from the Federal Reserve bank of such district his necessary expenses while engaged in the business of the committee, or a per diem allowance in lieu thereof to be fixed by the Federal Reserve Board. Each application for any such loan, advance, purchase, discount, or commitment shall be submitted to the appropriate committee and, after an examination by it of the business with respect to which the application is made, the application shall be transmitted to the Federal Reserve bank, together with the recommendation of the committee.'

"SECTION II. TRANSACTIONS BY FEDERAL RESERVE
BANKS WITH FINANCING INSTITUTIONS.

"(a) Legal Requirements. -- Under the provisions of subsection (b) of section 13b of the Federal Reserve Act, a Federal reserve bank is authorized to discount obligations for, purchase obligations from, and make loans or advances on the security of such obligations direct to, any bank, trust company, mortgage company, credit corporation for industry or other financing institution (hereinafter referred to as 'financing institution') operating in its district and to make commitments with regard to such discounts, purchases, loans or advances, subject to the following requirements:

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"(1) Obligations which are the subject of such discounts, purchases, loans, advances or commitments must have been or must be entered into for the purpose of obtaining working capital for an established industrial or commercial business;

"(2) Such obligations must have a maturity of not exceeding five years;

"(3) Each such financing institution shall

"A. Obligate itself to the satisfaction of the Federal reserve bank for at least 20 per centum of any loss which may be sustained by such reserve bank upon any such obligation acquired from such financing institution, the existence and amount of any such loss to be determined in accordance with subsection (d) of section II of this regulation; or

"B. In lieu thereof, advance at least 20 per centum of such working capital and in such event the advances by both such financing institution and the Federal reserve bank shall be considered as one advance and repayment shall be made on a pro rata basis.

"(b) Applications by Financing Institutions for Discounts, Purchases, Loans, Advances, or Commitments with Respect Thereto.

-- Each application* by a financing institution to a Federal reserve bank for the discount or purchase of an obligation entered into for the purpose of obtaining working capital for an established industrial or commercial business or for a loan or advance on the security of such an obligation or for a commitment with regard to such discount, purchase, loan or advance, must be transmitted to the Federal reserve bank of the district in which the principal place of business of the applicant is located and shall be submitted by such Federal reserve bank to the Industrial Advisory Committee of such district. Such application must be made in writing on a form furnished for that purpose by the Federal reserve bank and must contain or be accompanied by such information, agreements and documents as the Federal reserve bank may require.

**Attention is invited to the requirements of subsections (h) and (k) of section 22 of the Federal Reserve Act quoted in the appendix to this regulation, with regard to material statements or overvaluation of security in connection with applications of this kind and with regard to the giving or receiving of fees, commissions, bonuses or things of value for procuring or endeavoring to procure from a Federal reserve bank any credit accommodation, either directly from such Federal reserve bank or indirectly through any financing institution.

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"(c) Grant or Refusal of Application. -- In making any discount for or purchase from any financing institution of obligations entered into for the purpose of obtaining working capital for any established industrial or commercial business or making any loan or advance on the security thereof or any commitment with regard to such discount, purchase, loan or advance, the Federal reserve bank shall ascertain to its satisfaction:

"(1) that such obligations have been or will be entered into for the purpose of obtaining working capital for an established industrial or commercial business located in its district;

"(2) that the financial condition and credit standing of the obligor and indorsers, if any, upon such obligations and of such financing institution and the value of the security offered, if any, justify the granting of such accommodation; and

"(3) that the transaction will comply with the requirements of the law and of this regulation with regard thereto and, in so far as such reserve bank may be able to ascertain, does not involve a violation by any person of the provisions of section 22 of the Federal Reserve Act.

"(d) Existence and Amount of Losses. - - The Federal reserve bank shall be deemed to have sustained a loss upon any obligation acquired from a financing institution in accordance with the provisions of this section of this regulation whenever the board of directors of such reserve bank, after investigation, shall have determined that such obligation or any part thereof is a loss and such reserve bank, after having obtained the approval of the Federal Reserve Board, shall have charged off of the books of the reserve bank the amount so determined to be a loss. The amount of loss in any such case shall be deemed to be the amount so charged off, together with unpaid interest thereon. Such financing institution shall reimburse the Federal reserve bank for the portion of such loss for which such financing institution shall have obligated itself, with interest on such portion of such loss until the date of such reimbursement. If any recovery be realized on the amount of the loss ascertained in accordance with this subsection, such financing institution and the Federal reserve bank shall be entitled to share pro rata in the amount so recovered.

"SECTION III. DIRECT TRANSACTIONS IN EXCEPTIONAL CIRCUMSTANCES BY FEDERAL RESERVE BANKS WITH ESTABLISHED INDUSTRIAL OR COMMERCIAL BUSINESSES.

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"(a) Legal Requirements. -- A Federal reserve bank may exercise its authority to make loans to or purchase obligations of an established industrial or commercial business located in its district or to make commitments with respect thereto under subsection (a) of Section 13b of the Federal Reserve Act: (1) in exceptional circumstances; (2) when it appears to the satisfaction of the Federal reserve bank that such established industrial or commercial business is unable to obtain requisite financial assistance on a reasonable basis from the usual sources; (3) pursuant to the authority hereinafter granted by the Federal Reserve Board; (4) for the purpose of providing such established industrial or commercial business with working capital; (5) on a reasonable and sound basis; and (6) with respect to obligations which have maturities not exceeding five years.

"(b) Authorization by Federal Reserve Board. -- The Federal Reserve Board, pursuant to the provisions of subsection (a) of Section 13b of the Federal Reserve Act, hereby authorizes every Federal reserve bank, in exceptional circumstances, until such time as the Federal Reserve Board may revoke or modify such authority, to make loans to and purchase obligations of an established industrial or commercial business in its district, and to make commitments with respect thereto, subject to the provisions of the law and this regulation.

"(c) Applications by Established Industrial or Commercial Businesses for Loans, Purchases, or Commitments with Respect Thereto. -- Each application* by an established industrial or commercial business to a Federal reserve bank for a loan to, or the purchase of the obligations of, such business, or a commitment with respect to such a loan or purchase, must be transmitted to the Federal reserve bank of the district in which the principal place of business of the applicant is located and shall be submitted by such Federal reserve bank to the Industrial Advisory Committee of such district. Such application must be made in writing on a form furnished for that purpose by the

*Attention is invited to the requirements of subsections (h) and (k) of section 22 of the Federal Reserve Act quoted in the appendix to this regulation, with regard to material statements or overvaluation of security in connection with applications of this kind and with regard to the giving or receiving of fees, commissions, bonuses or things of value for procuring or endeavoring to procure from a Federal reserve bank any credit accommodation, either directly from such Federal reserve bank or indirectly through any financing institution.

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"Federal reserve bank and must contain or be accompanied by such information, agreements and documents as the Federal reserve bank may require.

"(d) Grant or Refusal of Application. -- In making any loan to or purchasing the obligations of any established industrial or commercial business or making any commitment with respect to such a loan or purchase, the Federal reserve bank shall ascertain to its satisfaction:

"(1) That the circumstances are exceptional;

"(2) That the obligor upon the obligation to be purchased or to evidence such loan is an established industrial or commercial business located in its district;

"(3) That the proceeds of such loan or purchase are to be used to provide working capital for such business;

"(4) That such obligor is unable to obtain requisite financial assistance on a reasonable basis from the usual sources;

"(5) That the financial condition and credit standing of the obligor and indorsers, if any, upon such obligations, and the value of the security offered, if any, justify the granting of such accommodation on a reasonable and sound basis; and

"(6) That the transaction will comply with the requirements of the law and of this regulation with regard thereto and, in so far as such reserve bank may be able to ascertain, does not involve a violation by any person of the provisions of section 22 of the Federal Reserve Act.

"SECTION IV. INDUSTRIAL ADVISORY COMMITTEES

"(a) Membership of Committees -- The Industrial Advisory Committee established in each Federal reserve district under the provisions of subsection (d) of Section 13b of the Federal Reserve Act shall consist of five members actively engaged in some industrial pursuit within the Federal reserve district in which the Committee is established and it shall be the duty of such Committee to consider all applications made to the Federal reserve bank for discounts, purchases, loans, advances and commitments pursuant to the provisions of Section 13b of the Federal Reserve Act and to make recommendations to the Federal reserve bank with respect thereto. The membership of such committee shall

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"consist of persons who are familiar with the problems and needs of industry and commerce in such district.

"As soon as practicable, the board of directors of each Federal reserve bank shall submit for the approval of the Federal Reserve Board the names of the persons in the district of such Federal reserve bank selected by such board of directors for service on such committee and, if approved by the Federal Reserve Board, such persons shall serve as members of said committee until March 1, 1935.

"On or before February 15, 1935, and on or before the fifteenth day of February of each year thereafter, the board of directors of each Federal reserve bank shall submit to the Federal Reserve Board for its consideration the names of the persons selected to serve for the ensuing year as members of the Industrial Advisory Committee of the district of such Federal reserve bank and, if approved by the Federal Reserve Board, such persons shall serve for terms of one year commencing on the first day of March of such year. Vacancies that may occur in the membership of such committees shall be filled in like manner and persons appointed to fill such vacancies shall hold office for the unexpired terms of their predecessors.

"(b) Recommendations of Committees -- The Industrial Advisory Committee to which an application for any such discount, purchase, loan, advance or commitment by the Federal reserve bank of the district shall have been submitted, after an examination by it of the business with respect to which the application is made and a consideration of the necessity and advisability of granting the application and of such other factors as it may deem appropriate, shall transmit the application to the Federal reserve bank together with the recommendation of the Committee.

"SECTION V. AGGREGATE AMOUNT OF ACCOMMODATIONS
WHICH MAY BE EXTENDED BY A FEDERAL
RESERVE BANK.

"Except with the permission of the Federal Reserve Board, the aggregate amount of loans, advances and commitments of each Federal reserve bank made pursuant to the provisions of Section 13b of the Federal Reserve Act and outstanding, plus the amount of purchases and discounts acquired under that section and held at the same time, shall not exceed the surplus of such Federal reserve bank as of July 1, 1934, plus all amounts paid to such Federal reserve bank by the Secretary of the Treasury under subsection (e) of Section 13b of the Federal Reserve Act.

"SECTION VI. RATES OF INTEREST AND DISCOUNT.

"All rates of interest and of discount established by any

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"Federal reserve bank with respect to loans, advances, discounts, and purchases made under authority of the provisions of Section 13b of the Federal Reserve Act shall be subject to the approval of the Federal Reserve Board.

"SECTION VII. REPORTS BY FEDERAL RESERVE BANKS.

"Each Federal reserve bank shall make a daily report to the Federal Reserve Board of all transactions entered into pursuant to the authority conferred by Section 13b of the Federal Reserve Act on the Federal Reserve Board's Form B D 4, prescribed for the reporting of discount transactions.

"SECTION VIII. CHANGES IN REGULATIONS

"The Federal Reserve Board, pursuant to the authority conferred upon it by Section 13b of the Federal Reserve Act, will alter, modify or amend the provisions of this regulation from time to time in its discretion.

"APPENDIX

"There is printed below the text of subsections (h), (i), (j), and (k) of Section 22 of the Federal Reserve Act, as amended by the Act of June 19, 1934, which relate in part to the subject matter of this regulation.

"(h) Whoever makes any material statement, knowing it to be false, or whoever willfully overvalues any security, for the purpose of influencing in any way the action of a Federal Reserve bank upon any application, commitment, advance, discount, purchase, or loan, or any extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, shall be punished by a fine of not more than \$5,000 or by imprisonment for not more than two years, or both.

"(i) Whoever, being connected in any capacity with a Federal Reserve bank (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud any Federal Reserve bank, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner, makes any false entry in any book, report, or statement of or to a Federal Reserve bank, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft,

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"mortgage, judgment, or decree shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

"(j) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States, insofar as applicable, are extended to apply to contracts or agreements of any Federal Reserve bank under this Act, which, for the purposes hereof, shall be held to include advances, loans, discounts, purchase and repurchase agreements; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.

"(k) It shall be unlawful for any person to stipulate for or give or receive, or consent or agree to give or receive, any fee, commission, bonus, or thing of value for procuring or endeavoring to procure from any Federal Reserve bank any advance, loan, or extension of credit or discount or purchase of any obligation or commitment with respect thereto, either directly from such Federal Reserve bank or indirectly through any financing institution, unless such fee, commission, bonus, or thing of value and all material facts with respect to the arrangement or understanding therefor shall be disclosed in writing in the application or request for such advance, loan, extension of credit, discount, purchase, or commitment. Any violation of the provisions of this paragraph shall be punishable by imprisonment for not more than one year or by a fine of not exceeding \$5,000, or both. If a director, officer, employee, or agent of any Federal Reserve bank shall knowingly violate this paragraph, he shall be held liable in his personal and individual capacity for any loss or damage sustained by such Federal Reserve bank in consequence of such violation."

At Governor Black's suggestion, he and Mr. Goldenweiser were requested to prepare a statement for release to the press with regard to the action taken during the current meetings with the Federal reserve agents and governors.

The minutes of the meeting of the Executive Committee of the Federal Reserve Board held on June 16, 1934, were approved and the actions recorded therein were ratified unanimously.

The Board then considered and acted upon the following matters:

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Letter dated June 25, 1934, approved by six members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, with regard to the steps which should be taken in connection with the matters commented on in the report of examination of The Newark Trust Company, Newark, Ohio, as of February 5, 1934.

Approved.

Telegram dated June 23, 1934, approved by six members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Your wire June 20 requesting advice whether State member bank located in place of less than 3000 population with capital of \$40,000 may reduce its capital \$20,000 as part of a plan whereby its capital will be again increased in an equal amount through sale of \$20,000 of preferred stock to Reconstruction Finance Corporation, even though the resulting capital will not be equal to the amount required for organization of a national bank. Board in a few cases involving similar circumstances has taken position that since purposes of Federal Reserve Act would be substantially complied with it would raise no objection to the reduction of capital provided that after reduction and increase by sale of additional stock capital of bank was at least equal to amount of its capital prior to such reduction and provided that such reduction was valid under State law. Each case of this kind involves the question whether purposes of Federal Reserve Act are being substantially complied with and should be submitted to Board for consideration with detailed information regarding plan of rehabilitation, advice as to validity of reduction under State law and recommendation by Federal Reserve Agent. In specific case referred to Board on basis of information submitted will raise no objection to proposed reduction provided that none of funds released by such reduction are returned to share holders but are used to eliminate any undesirable assets in bank, that reduction is valid under State law and that it meets with your approval."

Approved.

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

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"In accordance with the recommendation of Acting Comptroller of the Currency Awalt, contained in his letter of June 21, 1934, the Federal Reserve Board approves a reduction in the common capital stock of 'The Seaboard-Citizens National Bank of Norfolk', Norfolk, Virginia, from \$2,000,000 to \$1,500,000, pursuant to an amended plan which provides that the bank's capital shall be increased by the sale of \$500,000 of preferred stock to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate losses and depreciation in lower grade securities, and to establish a reserve for losses.

"It is observed that the plan as submitted provides for the elimination of losses and depreciation in lower grade securities aggregating approximately \$440,663.39, which is the total of such items shown in the report of examination as of March 6, 1934. It is our understanding that approximately \$331,234 of the estimated losses have already been charged off, and it is assumed that your office will require the elimination of the remaining losses and depreciation in lower grade securities as shown in the last report of examination, and that the balance of the released capital will be set aside in a specific reserve to provide for losses to be determined at the next or subsequent examinations, and for no other purpose."

Approved.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Please advise George L. Browning, 6650 Franklin Avenue, Los Angeles, California, substantially as follows: 'Reference your protest of June 12, 1934, to Federal Reserve Board against issuance of permit to Seaboard National Securities Corporation to vote stock of The Seaboard National Bank of Los Angeles owned or controlled by Securities Corporation at special meeting of bank's shareholders to be held June 26, 1934, Board is advised and has been furnished information to effect that Securities Corporation is not holding company affiliate of such bank within meaning of section 2(c) of Banking Act of 1933, and since law does not require a corporation to obtain permit from Board in order to vote stock of member bank which it owns or controls unless corporation is holding company affiliate of such bank, it does not appear necessary for Securities Corporation to obtain permit from Board before voting its stock in such national bank at meeting aforesaid.'"

Approved.

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Letter, prepared in accordance with the action taken at the meeting of the Executive Committee on June 9, 1934, to the chairmen of all Federal reserve banks, reading as follows:

"Section 21 of the Banking Act of 1933, which by its terms became effective June 16, 1934, reads in part as follows:

'Sec. 21(a) After the expiration of one year after the date of the enactment of this Act it shall be unlawful -

* * * * *

(2) For any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor, unless such person, firm, corporation, association, business trust, or other similar organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal reserve bank of the district and shall make and publish periodic reports of its condition, exhibiting in detail its resources and liabilities, such examination and reports to be made and published at the same times and in the same manner and with like effect and penalties as are now provided by law in respect of national banking associations transacting business in the same locality.'

"The Federal Reserve Board has given consideration to a number of questions arising under this section and presents its views herein for your information.

"In any case in which a person, firm, corporation, association, business trust or other similar organization shall submit or offer to submit to examination in accordance with the provisions of the statute, such submission or offer should be in writing and signed by such person or by a duly authorized representative of such firm, corporation, association, business trust or other similar organization and his authority to execute such writing should be properly evidenced. The costs of such examinations should be paid by the respective persons or organizations examined and the Federal Reserve Board suggests that, prior to the making of an examination under the provisions of Section 21, an agreement in writing to pay the costs of such examination be obtained from the person or organization to be examined. Such agreement, of course, may be so worded as to be applicable to all examinations which may be made subsequently under the authority of that section. In view of the provisions of the section, examinations of such persons or organizations

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"should be made at least twice in each calendar year and oftener if considered necessary.

"In order that the fees charged for examinations made under the provisions of Section 21 may be uniform, it is believed that the Federal reserve banks should make charges for examinations under the section on substantially the same basis as that which will be used by the Comptroller of the Currency; and it is suggested, accordingly, that Federal reserve banks charge for each examination made under the provisions of Section 21 the actual expenses thereof, including salaries, subsistence and transportation costs of the examiners, together with a charge of \$10 per day for each day of the examination to cover overhead expenses and the cost of typing the report of examination.

"It is the view of the Board, that, in a case in which a person, firm, corporation, association, business trust, or other similar organization of the kind described in the statute submits or offers to submit to periodic examination by the Federal reserve bank of the district and does not submit or offer to submit to such examination by the Comptroller of the Currency, the Federal reserve bank should make the examinations prescribed by the statute.

"On the other hand, if any such person or organization submits or offers to submit to examination by the Comptroller of the Currency and does not submit or offer to submit to examination by the Federal reserve bank of the district, the Federal reserve bank is under no responsibility to make examinations of such person or organization.

"If a Federal reserve bank is notified that a person or organization submits or offers to submit to periodic examination either by the Comptroller of the Currency or by the Federal reserve bank of the district, a letter should be addressed by the bank to such person or organization acknowledging receipt of such notification and requesting that such person or organization indicate a preference as to whether examinations should be made by the Comptroller or by the Federal reserve bank. It is understood that the Comptroller of the Currency is following a similar practice when he is notified that a person or organization submits or offers to submit to examination either by the Comptroller or by the Federal reserve bank of the district. If such person or organization, pursuant to such a request from the Federal reserve bank or from the Comptroller of the Currency, indicates a preference as to the authority to make the examination, the examination should be made by the authority thus indicated as preferred. With respect to such persons or organizations, if any, which shall not indicate a preference as requested, it is the view of the Board and it is understood that the Comptroller of the Currency concurs, that the work of examining such persons or organizations should be divided in an equitable manner

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"between the Federal reserve bank and the Comptroller of the Currency on such basis as may be agreed upon by representatives of the bank and the Chief National Bank Examiner of the district in accordance with the practical considerations involved and their mutual convenience. All examinations of any one person or organization should be made from time to time by the same authority, i.e., either by the Federal reserve bank or by the Comptroller of the Currency, and it would seem undesirable, except where it is necessary for special reasons, when one or more examinations of a person or organization have been made by the Federal reserve bank to change the practice so that the Comptroller of the Currency in lieu of the Federal reserve bank will then make the examinations of such person or organization, or vice versa.

"It will be observed that, under the terms of the section, reports of condition of persons and organizations to which the statute is applicable are to be made and published at the same times and in the same manner and with like effect and penalties as are now provided by law in respect of national banking associations transacting business in the same locality; and, accordingly, such reports of condition, in all cases and without regard to the authority which may make the examinations referred to in Section 21, should be made to the Comptroller of the Currency and published in the same manner as reports of condition of national banks. It is requested that each Federal reserve bank advise the Comptroller of the Currency of the names and addresses of all persons and organizations which submit or offer to submit to examination by the Federal reserve bank or either by the Federal reserve bank or by the Comptroller of the Currency, in order that he may notify such persons and organizations of calls for reports of condition and may furnish them forms for the rendering of such reports. It is understood that the office of the Comptroller of the Currency will furnish to each Federal reserve bank a copy of each such report of condition of each person and organization which has submitted to examination by such Federal reserve bank.

"Inasmuch as examinations required under the provisions of Section 21 of the Banking Act of 1933 are to be made by the Federal reserve bank or by the Comptroller of the Currency and no duties are placed upon the Federal Reserve Board in this connection by the statute, for the present, at least, it will not be necessary to submit to the Federal Reserve Board copies of reports of such examinations or analyses thereof. However, the Board requests that you report to it promptly the names of all persons or organizations which submit or offer to submit to examinations by your Federal reserve bank or either by your bank or by the Comptroller of the Currency, when examinations are made of such persons or organizations, and any other information in

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"this connection which you feel should be furnished to the Board.

"While the Federal Reserve Board does not feel that it is necessary under the law that Federal reserve banks or the Federal Reserve Agents make an investigation in order to determine what persons or organizations in their respective districts may be subject to the provisions of Section 21 of the Banking Act of 1933, the Board suggests that each Federal reserve bank take such steps as it may consider best adapted to the purpose to bring the provisions of Section 21 to the attention of persons and organizations in its district which there is reason to believe may be affected by the section. A statement released to the press or a circular transmitted directly to such persons and organizations, or both if considered advisable, may be used for this purpose. If such a circular is transmitted to any person or organization, it should be stated that the Federal reserve bank is not thereby undertaking to express an opinion as to the applicability of the section to such person or organization but is merely inviting attention to the matter for consideration. There is inclosed herewith for your information a copy of the Board's statement for the press on this subject and you will note stated thereon the date and time for release of this statement. If you decide to issue a statement to the press in this connection, it is suggested that, in order to avoid the possibility of confusion in the matter, you use the Board's form of release inclosed herewith, and that you issue such statement on the date and at the time of release indicated on the Board's statement.

"With regard to questions which may arise as to whether persons or organizations or stated transactions fall within the scope of Section 21 or are affected by its provisions, attention is invited to the Board's letter of December 16, 1933 (X-7729), in which it is stated that the section does not give to the Federal Reserve Board any jurisdiction or discretion regarding the matters with which it deals and that the Board does not feel that it would be appropriate for it to undertake to express opinions upon questions of this kind. As indicated in that letter, the section provides a penalty of fine or imprisonment for any violation of its provisions and the determination of the question whether a person or organization should be prosecuted for such violation is a matter entirely within the jurisdiction of the Department of Justice. The section does not give to the Comptroller of the Currency, the Federal reserve bank or the Federal Reserve Board any discretion or power to require a person or organization to submit to examination or to determine what persons or organizations should submit to examination."

Approved, together with a statement to be

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released to the press on June 30, 1934, with regard to examinations and reports under section 21 of the Banking Act of 1933.

Letter dated June 25, 1934, approved by six members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"The Federal Reserve Board has under consideration the application of Raymond W. Cakes under Section 32 of the Banking Act of 1933 for permit to serve at the same time as Assistant Cashier of the Jefferson County National Bank, Watertown, New York, as vice president and director of The First National Bank, Lacona, New York, and as secretary-treasurer of the Jefferson Securities Corporation, Watertown, New York, and has noted your recommendation that the application be refused.

"In its answer to Question No. 1 on F. R. B. Form 99c, the dealer makes the following statement:

'The business of the Jefferson Securities Corporation is now confined entirely to the execution of such buy and sell orders as may come to us from the customers of the Jefferson County National Bank and others, and is no longer engaged in marketing or underwriting of securities.'

"However, the statement of the dealer on the same form shows that the greater part of the Company's assets is composed of stocks, bonds and securities which would seem to indicate that the Company may be engaged in retailing securities.

"As you know, if the Jefferson Securities Corporation is not a dealer in securities within the scope of Section 32, the applicant can continue to serve that Company and the member banks without a permit from the Board; but since the information submitted is not sufficient to enable the Board to determine whether the relationship covered by the application is within the purview of Section 32, it will be appreciated if you will obtain detailed information as to the company's business.

"Furthermore, since the relationship involves a national bank, the Board believes that it should have information as to whether the Jefferson Securities Corporation makes loans secured by stock or bond collateral in connection with the carrying of margin accounts or otherwise, in order that it may determine whether Section 8A of the Clayton Act is applicable to such relationship.

"It is also noted from the dealer's answer to Question 2 on Form 99c that the Jefferson Securities Corporation is an affiliate of the Jefferson County National Bank, that all the

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"stock of the Jefferson Securities Corporation is held by three trustees for the stockholders of the Jefferson County National Bank, and that the stockholders' interest in the securities corporation is evidenced by an indorsement on the bank's stock certificates. As you know, Section 18 of the Banking Act of 1933, which became effective on June 16, 1934, provides that on and after that date no certificate representing the stock of a national bank shall represent the stock of any other corporation except the stock of a member bank or of a corporation engaged solely in holding the bank premises. It appears from the information submitted that the indorsement on the stock certificates of the Jefferson County National Bank comes within the prohibitions of Section 18 and that if it has not already done so, the Jefferson County National Bank should take the necessary steps to comply with the provisions of that statute. It is suggested that you call this to the attention of the national bank.

"It will be appreciated if you will obtain and furnish to the Board such detailed information with regard to the business of the Jefferson Securities Corporation as will enable the Board to determine whether the relationships described herein come within the provisions of Section 32 of the Banking Act of 1933 or of Section 8A of the Clayton Act. The Board will appreciate any further remarks which you may deem pertinent to this application."

Approved.

Letter dated June 23, 1934, prepared for the signature of Mr. Martin, Assistant to the Governor, and approved by six members of the Board, to Mr. Paul M. Davis, President of The American National Bank, Nashville, Tennessee. The letter read as follows:

"Reference is made to your letter dated June 19, 1934, in regard to the application of Mr. J. J. Gray, Jr., under section 32 of the Banking Act of 1933 for permission to continue to serve as a director of your bank and as president and director of Gray-Shillinglaw & Co. Your letter has been referred by Governor Black to me for reply.

"Careful consideration has been given to your statement that Mr. Gray is one of your strongest and most influential directors as well as one of your largest stockholders, and that it would be a great loss to the bank not to have him on its Board. It has also been noted that you state that Mr. Gray is not active in the securities business and does not in any way participate in the buying or selling, but merely invested some money in the

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"securities company and consented to act as president on account of his standing in the community. However, in his application, Mr. Gray, in answer to question No. 4 of F.R.B. Form 99a described the services actually rendered by him to the dealer in securities as follows:

"'Applicant is President, and directs the policy of the dealer in securities'.

"It appears however, that the extent of the activity of Mr. Gray in the management of the business of the securities company is not a controlling consideration upon the question of whether or not a permit should be granted. Your statement has been noted to the effect that there is not a chance of Gray-Shillinglaw & Co., influencing your bank's credit and investment policy. No doubt this is true in many cases but it was apparently the view of Congress that all such interlocking relationships should be prohibited in order to eliminate any possibility of an improper influence upon the affairs of member banks.

"In his answer to question No. 2 of F.R.B. Form 99a, Mr. Gray states that Gray-Shillinglaw & Co. 'buys and sells securities for its own account and for the account of others'. Furthermore, the statement of Gray-Shillinglaw & Co. on F.R.B. Form 99c, attached to Mr. Gray's application shows that on the date the application was prepared the company had on hand \$101,330.61 of bonds and stocks, out of total assets of \$118,361.40. It thus appears that Gray-Shillinglaw & Co. is engaged in the purchase and sale of securities as a dealer, and that accordingly the relationship covered by Mr. Gray's application is within the class at which section 32 was directed. The Federal Reserve Board believes that since Congress has enacted into law a definite policy that a relationship of this type is incompatible with the public interest, the Board should not grant a permit in such a case, even though the individual applicant has not allowed his interest in a securities company to affect his judgment as an officer or director of a member bank.

"I sincerely regret that on the basis of the facts stated in your letter it appears that no exception can be made in Mr. Gray's case. However, if there are any other facts or circumstances which you or Mr. Gray feel should be considered in connection with this application, the Federal Reserve Board is prepared to give careful consideration to such additional matters. Any such additional information should be submitted in writing through the Federal Reserve Agent at the Federal Reserve Bank of Atlanta."

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

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<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 6.</u>		
The First National Bank of Greeneville, Greeneville, Tennessee	9	
The First National Bank of Montgomery, Montgomery, Alabama	300	
First National Bank of Lawrenceville, Lawrenceville, Georgia	<u>7</u>	316
<u>District No. 8.</u>		
The St. Clair National Bank of Belleville, Belleville, Illinois	30	30
<u>District No. 9.</u>		
The First National Bank of Gilbert, Gilbert, Minnesota	6	
The First National Bank of Rapelje, Rapelje, Montana	<u>6</u>	12
<u>District No. 10.</u>		
The Central National Bank of Poteau, Poteau, Oklahoma	7	7
<u>District No. 11.</u>		
The First National Bank of La Porte, La Porte, Texas	12	12
<u>District No. 12.</u>		
The First National Bank of Chewelah, Chewelah, Washington	2	
The Bonner County National Bank of Sandpoint, Sandpoint, Idaho	<u>3</u>	5
	<u>Total</u>	<u>382</u>
<u>Applications for SURRENDER of Stock:</u>		
<u>District No. 2.</u>		
The Mountains National Bank of Tannersville, Tannersville, New York	45	
The Teaneck National Bank, Teaneck, New Jersey	<u>39</u>	84
<u>District No. 3.</u>		
The Liberty National Bank of Pittston, Pittston, Pennsylvania	15	

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Applications for SURRENDER of Stock: (Continued)	<u>Shares</u>	
<u>District No. 3. (Continued)</u>		
The First National Bank of Roseto, Roseto, Pennsylvania	36	
The Palmyra National Bank, Palmyra, New Jersey	<u>66</u>	117
<u>District No. 5.</u>		
The First National Bank of Abingdon, Abingdon, Virginia	165	165
<u>District No. 6.</u>		
The Citizens National Bank of Montezuma, Montezuma, Georgia	30	
Peoples-First National Bank of Quitman, Quitman, Georgia	<u>81</u>	111
<u>District No. 7.</u>		
The First National Bank of Antigo, Antigo, Wisconsin	120	120
<u>District No. 8.</u>		
First National Bank in St. Louis, St. Louis, Missouri	150	150
<u>District No. 11.</u>		
The First National Bank of Aransas Pass, Aransas Pass, Texas	26	
The Adams National Bank of Devine, Devine, Texas	45	
The American National Bank of Tucumcari, Tucumcari, New Mexico	<u>38</u>	109
	Total	<u>856</u>

Approved.

Thereupon the meeting adjourned.

Wesley M. Mowbray
Secretary.

Approved:

Ed Black
Governor.