

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Saturday, September 22, 1934, at 3:15 p. m.

PRESENT: Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. James
Mr. Szymczak

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Parry, Assistant Director of the
Division of Research and Statistics
Mr. DuBois, Assistant Counsel

ALSO PRESENT: Messrs. Harrison and Black, Governors of the Federal Reserve Banks of New York and Atlanta, respectively.

Vice Governor Thomas stated that copies of a revision, prepared in the office of Mr. Oliphant, General Counsel to the Secretary of the Treasury, of the September 17 draft of regulation with regard to the extension and maintenance of credit by brokers, dealers and members of national securities exchanges, was received by him and Messrs. Wyatt and Parry yesterday, and that this morning, during the time of the meeting with the governors of Federal reserve banks, he had received a copy of an opinion rendered by Mr. Oliphant stating that apparently it had been the assumption of the Federal Reserve Board, in preparing the September 17 draft of the regulation, that section 7(a) of the Securities Exchange Act of 1934 requires the promulgation of rules and regulations with respect to the amount of credit that may be extended and maintained for any purpose on any security (other than an exempted security) registered on a national securities exchange; that in the opinion of Mr. Oliphant this assumption is not warranted; and that it

9/22/34

-2-

is believed that the statute should not be construed as requiring all-inclusive regulations. Reference was also made by Mr. Thomas to the opinion rendered by Mr. Wyatt under date of September 21, 1934, to the effect that section 7 of the Securities Exchange Act requires the Board to prescribe regulations prior to October 1, 1934, governing all extensions of credit on registered securities other than exempted securities by members of national securities exchanges and brokers and dealers who transact a business in securities through the medium of such members, and that a regulation which governs only the extension and maintenance of credit in margin accounts or by brokers would not comply with this requirement.

Mr. Thomas stated that he had not yet had an opportunity to consider Mr. Olyphant's opinion and that he was not prepared to pass on the matter until he had been able to give it thorough study. He also pointed out that the Comptroller of the Currency is out of the city and that the Secretary of the Treasury has gone to Hyde Park, New York, to discuss the regulation with the President and he said that he felt it would be unwise to take action on the regulation until Tuesday when the Secretary of the Treasury, and possibly the Comptroller of the Currency, can be present and the members of the Board advised of the position of the Secretary of the Treasury as a member of the Board. Agreement with Mr. Thomas' statement was indicated by Mr. James and Mr. Hamlin.

Mr. Szymczak stated that, in view of the opinion of the Board's counsel that the Board is required to promulgate a regulation to take effect on October 1, 1934, he felt the regulation should be issued at the earliest

9/22/34

-3-

possible date; that in his opinion, it was incumbent upon the members of the Board present to agree as promptly as possible upon a form of regulation which could be acted upon as soon as a quorum of the Board is present; and that he was prepared to vote upon the regulation in the form submitted by the Board's staff, or to sit with the staff for the purpose of working out a regulation in a form agreeable to the members present that can be voted on as soon as a quorum of the Board is available.

Mr. Thomas suggested that the Board might issue a statement to the press to the effect that the Board had been unable, in the time available, to complete the regulation for promulgation before October 1, 1934, but had agreed that the regulation, when issued, (1) should prescribe the statutory margin requirements, (2) should not prescribe definite margin requirements for the maintenance of credit, and (3) should not be applicable to banks.

Mr. Parry said that he understood from Mr. Greenbaum, Special Assistant to Mr. Oliphant, that the special assistants in Mr. Oliphant's office who are working on the regulation are in favor of the position suggested by Mr. Thomas on the three points above referred to.

There followed a discussion of the question whether the law requires the issuance of a regulation by the Board prior to October 1, 1934, and what steps might be taken in the event the regulation is not issued sufficiently in advance of the first of October to enable interested persons to become familiar therewith; particular consideration being given to the question whether it would be possible to issue the regulation prior to October 1, with a provision making it effective at a later date in October, or with simplified provisions added to be effective until the later date in October, which

9/22/34

-4-

would give the public an opportunity to become acquainted with the provisions to be effective after that date. Governor Black stated that, in his opinion, the law required the Board to issue the regulation prior to October 1, 1934, to become effective on that date, and that he saw no reason why the Board should not do so.

Mr. Wyatt stated that he could find no justification in the law for the view that a regulation which applies only to the extension of credit in margin accounts or to the extension of credit by brokers would comply with the requirements of section 7; but that he believed there is another way in which the apparent conflict of views as to the scope of the regulation could be compromised. He called attention to the fact that section 7(a) of the Securities Exchange Act commences with the words, "For the purpose of preventing the excessive use of credit for the purchase or carrying of securities", and stated that the question whether or not this clause constitutes a limitation on all of the Board's powers under section 7 is a sufficiently close and doubtful question to justify the Board in resolving the doubt on the side of liberality if it feels that such a construction would be in the public interest. Mr. Wyatt stated that, if this construction were adopted, the Board could insert in the regulation a statement to the effect that nothing in the regulation applies to the extension or maintenance of credit for any purpose other than the purpose of purchasing or carrying securities or of evading or circumventing the provisions of the regulation. He stated that he did not consider this the best technical construc-

9/22/34

-5-

tion of the law but considered it one of two possible constructions which could be adopted by the Board in view of the doubt as to what Congress really intended.

During the discussion the statement was made that it is not believed that there is a great deal of difference between the final effect of the form of regulation suggested by the Treasury representatives and the September 17 draft of the regulation prepared by the Board's staff, but that the matter is one of approach, and Mr. Parry stated that, if the Board desired, the members of the staff who had worked on the regulation could prepare, and have ready by Monday, September 24, a revised draft of regulation along the lines of the draft submitted by Mr. Oliphant's office.

At the conclusion of the discussion, Messrs. Goldenweiser, Parry and Wyatt were requested to make a revision of the draft of regulation of September 17, 1934, which would reconcile, so far as possible in view of the different interpretations put upon the law by the Board's counsel and Mr. Oliphant, the differences between that draft of regulation and the draft submitted by Mr. Oliphant's office yesterday. It was suggested that the major difference between the drafts might be reconciled by putting in the first part of the draft of September 17, 1934, a statement that the regulation shall not apply to credit not extended for the purpose of carrying or purchasing securities or evading or circumventing the regulation.

At this point Governors Black and Harrison left the meeting and the committee considered and acted upon the following matters:

Letter dated September 20, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, advising that, at a meeting of the board of directors on that date, no change was made in the bank's existing

9/22/34

-6-

schedule of rates of discount and purchase.

Without objection, noted with approval.

Letter dated September 21, 1934, approved by four members of the Board, to Mr. Newton, Chairman of the Federal Reserve Bank of Atlanta, reading as follows:

"The Federal Reserve Board notes from your letter of September 17, 1934, that the board of directors of your bank, at its meeting on September 14, accepted the resignation of Mr. W. S. Johns as a member of the Federal Open Market Committee and selected Governor Black as a member of the committee, representing the Sixth Federal Reserve District, to serve until the January, 1935, meeting of your board of directors."

Approved.

Telegram dated September 21, 1934, approved by three members of the Board, to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"Your wire 20th regarding meeting Chairman Industrial Committees. Regret that arrangements have proceeded to point where date cannot be changed as it is probable that all of the committees will be represented. In one or two instances in which Chairman cannot be present committees will be represented by other members selected for the purpose. Therefore suggest you consult with Mr. Wood and arrange if possible for some other member of the committee to attend as its representative."

Approved.

Telegram dated September 21, 1934, approved by four members of the Board, to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Your letter thirteenth. Designation as assistant examiners of employees of the bank or branches whom you wish to use in connection with examinations of State member banks will be necessary. In submitting your recommendations to the Board for approval of such designations please furnish in each individual case the information requested in Board's letter of September 20, 1933, X-7595."

Approved.

9/22/34

-7-

Letter dated September 21, 1934, approved by four members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to Mr. Hill's letter of August 31, 1934, recommending approval of the application of the 'Girard Trust Company', Philadelphia, Pennsylvania, for permission to increase its investment in banking premises through the advance of \$1,200,000 to its affiliate, 1400 South Penn Square Corporation, made on April 6, 1934, for the purpose of retiring the mortgage on the building owned by the corporation.

"The Board has reviewed the information submitted, and, in view of the circumstances and the recommendation of your office, approves the bank's application for permission to increase its investment in banking premises through an advance of \$1,200,000 to its affiliate for the purpose of retiring a matured mortgage. You are requested to advise the trust company accordingly."

Approved.

Letter to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"Reference is made to the report of examination of the 'Liberty State Bank & Trust Company', Mount Carmel, Pennsylvania, as of May 12, 1934, and the supplemental information submitted in connection therewith, particularly Mr. Hill's letter and memorandum of August 23, 1934.

"It has been noted that you requested the bank to eliminate depreciation of \$108,187 in all securities other than those in the four highest grades, which amount constituted the only loss in assets classified as a result of the examination by your examiner as of May 12, 1934, but that the management of the bank was unwilling to make the eliminations requested by you and it was only after considerable effort on the part of your office that depreciation of \$28,672 in stocks and defaulted bonds was eliminated. In view of the circumstances and the fact that the State Banking Department, in its examination as of the same date, classified as a loss only \$2,135 of depreciation in securities, it may not be advisable to undertake the accomplishment of further corrections at this time, but, as stated in the Board's letter of April 4, 1934, X-7848-a, the Board feels that whenever possible banks should charge off or otherwise eliminate not only all losses in loans and other assets and all depreciation in stocks and defaulted bonds, but also depreciation in all other securities except those in the four highest grades, and it will be appreciated if you will renew your efforts to obtain such action by the Liberty State Bank &

9/22/34

-8-

"Trust Company whenever you feel that it is advisable to do so.

"The report of examination reflects continued violation of a condition of membership in that the loan to Director Buckley is in excess of the limits prescribed by the banking laws of the Commonwealth of Pennsylvania, as it apparently has been since prior to the examination as of December 19, 1931. It will be appreciated if you will keep the Board advised as to the action taken by the bank in order to comply with the provisions of law and the conditions of membership."

Approved.

Letter dated September 21, 1934, approved by four members of the Board, 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 First National Bank of Nelson', Nelson, Wisconsin, from \$25,000 to \$20,000, pursuant to a plan which provides that the bank's capital shall be increased by \$30,000 of preferred stock to be sold to the Reconstruction Finance Corporation and/or others, and that the released capital, together with reserves for contingencies, shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in your memorandum of September 8, 1934.

"In considering the plan under which the proposed reduction in capital is to be effected, it has been noted that, after adjustments, estimated losses unprovided for (\$5,920) will impair the bank's common capital by approximately that amount, and that there will also remain in the bank unprovided for \$4,137 of unclassified securities depreciation and \$2,989 of doubtful loans, all on the basis of the report of examination of March 21, 1934. It has been noted further that interest charges on the preferred stock to be issued will impose a burden on the bank's earnings which, in view of its low earning power, it seems ill-prepared to meet, and which, together with the apparently weak management of this little institution, raises a serious question of doubt as to its ability to operate successfully in the future."

Approved.

Telegram dated September 21, 1934, approved by four members of the Board, to the governors of all Federal reserve banks reading as follows:

"Beginning September 20 Miscellaneous assets, except real estate and securities eligible for purchase by Federal Reserve banks, unconditional title to which has been acquired by your bank in settlement of claims against closed banks, should be

9/22/34

-9-

"shown in 'Miscellaneous Assets' section of daily balance sheet, Form 34, against caption 'Miscellaneous Assets acquired in settlement of claims account closed banks'."

Approved.

Memorandum dated September 21, 1934, approved by four members of the Board, to Mr. Stephen Early, Assistant Secretary to the President, reading as follows:

"Reference is made to your memorandum of August 29 transmitting letters dated July 24 and August 23, addressed to the President by Mr. R. L. Kendell, President, Kendell & Dasseville, Inc., New York, New York, in regard to the inability of his company to obtain an industrial loan from the Federal Reserve Bank of New York.

"Your memorandum and inclosures were promptly brought to the attention of the Federal Reserve Bank of New York and we are now in receipt of a letter dated September 13 from Mr. L. R. Rounds, Deputy Governor of that bank, which sets forth fully the facts in the case.

"In view of your request for suggestions as to a reply which might properly be made by your office to Mr. Kendell's letters, I inclose a signed copy of Mr. Rounds' self-explanatory letter which contains information upon which a reply might be based. In accordance with your further request the correspondence inclosed with your memorandum is returned herewith."

Approved.

Letter to Mr. R. H. Sparkman, Acting Clerk of the Senate Committee on Banking and Currency, reading as follows:

"The Board has requested me to transmit to you a set of copies of the report of the system committee on Branch, Group and Chain Banking, which was prepared during the fall of 1932 and succeeding winter. This set is the only one remaining available for disposition. The report was never finally passed upon or published by the Board.

"As the report is very bulky, the expense of printing it would be very large and the Board has not felt that it would be justified in incurring such an expense.

"Recently a request was received from Senator Walcott for a copy but in view of the fact that the only set which could be used for the purpose is the one now being transmitted to you and that a number of other requests heretofore have been declined, it was thought best by the Board to send this set to you so that it might be in a place where it could be made available readily to any

9/22/34

-10-

"Senator desiring to see it and Senator Walcott is being advised accordingly."

Approved, together with a letter to Honorable F. C. Walcott, United States Senator, in accordance with the statement referred to above.

Telegram dated September 21, 1934, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Referring Board's letter B-1005 of July 26, please obtain similar reports on Form B-1005a of new loans, loans paid and loans written off for the month of July and the month of August from each licensed member bank in your district and furnish Board with summaries thereof as soon as practicable. Please advise member banks that information is being asked for at the request of the Secretary of the Treasury and that prompt submission of the report will be appreciated."

Approved.

Telegram dated September 21, 1934, approved by four members of the Board, to Mr. Agnew, Counsel for the Federal Reserve Bank of San Francisco, reading as follows:

"Retal July 25, 1934, requesting Board's opinion upon question whether holding company affiliate of member bank may lawfully cumulate its shares in elections of directors. Comptroller of Currency has heretofore ruled that holding company affiliate of national bank may cumulate its shares in voting for directors in same manner as individual shareholders are permitted to cumulate under section 5144 of Revised Statutes and Board concurs in that opinion. Furthermore, Board is of opinion that there is no prohibition in Federal statutes against holding company affiliate of State member bank cumulating its shares when permitted by applicable State laws."

Approved.

Letter dated September 21, 1934, approved by four members of the Board, to Mr. Williams, Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

9/22/34

-11-

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. William J. Brant, Pittsburgh, Pennsylvania, to serve at the same time as a director of The Commonwealth Trust Company, and as a director and officer of The National Bank of America in Pittsburgh, both of Pittsburgh, Pennsylvania.

"The Board understands that The National Bank of America in Pittsburgh is in process of organization and that the organization plans have been approved by the Comptroller of the Currency. It is requested therefore that you hold the inclosed permit and copies until such time as The National Bank of America in Pittsburgh has been granted a charter and has opened for business, when you are authorized to release the permit to Mr. Brant and to forward copies to the banks involved. In this connection, it is assumed that, before releasing the permit, you will ascertain that the title of the newly chartered bank as shown in the permit is correct according to the bank's charter.

"Please inform the Board concerning the disposition of this matter in order that its records may be complete."

Approved.

Letters dated September 21, 1934, approved by four members of the Board to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. R. F. Devine, Jr., for permission to serve at the same time as a director of The First National Bank of Erie, Erie, Pennsylvania, and as a director and officer of The Lawrence Park National Bank, Lawrence Park, Pennsylvania.

Mr. R. V. Pool, for permission to serve at the same time as a director of The Peoples Savings Bank, New Matamoros, Ohio, and as a director of The Citizens National Bank of Woodsfield, Woodsfield, Ohio.

Mr. George A. Bell, for permission to serve at the same time as a director and officer of the Marion National Bank of Marion, Marion, Indiana, and as a director and officer of the South Marion State Bank, Marion, Indiana.

Mr. Gus S. Condo, for permission to serve at the same time as a director of the Marion National Bank of Marion, Marion, Indiana, and as a director of the South Marion State Bank, Marion, Indiana.

Mr. W. K. Fraizer, for permission to serve at the same time as a director of the Marion National Bank of Marion, Marion, Indiana, and as a director of the South Marion State Bank, Marion, Indiana.

9/22/34

-12-

Mr. Elsworth Harvey, for permission to serve at the same time as a director and officer of the Marion National Bank of Marion, Marion Indiana, and as a director and officer of the South Marion State Bank, Marion, Indiana.

Mr. Thomas Mahaffey, for permission to serve at the same time as a director of the Marion National Bank of Marion, Marion, Indiana, and as a director of the South Marion State Bank, Marion, Indiana.

Mr. Thomas G. Wilson, for permission to serve at the same time as a director and officer of the Marion National Bank of Marion, Marion, Indiana, and as an officer of the South Marion State Bank, Marion, Indiana.

Mr. E. J. Feldman, for permission to serve at the same time as a director of the State Bank of Chandler, Chandler, Minnesota, as a director and officer of The First National Bank of Pipestone, Pipestone, Minnesota, and as a director and officer of the State Bank of Edgerton, Edgerton, Minnesota.

Mr. A. H. Jansen, for permission to serve at the same time as a director and officer of the State Bank of Edgerton, Edgerton, Minnesota, and as a director and officer of The First National Bank of Pipestone, Pipestone, Minnesota.

Approved.

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

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 2</u>		
The Millerton National Bank, Millerton, New York	54	
The Tottenville National Bank, Tottenville, New York	<u>82</u>	136
<u>District No. 4</u>		
The National Bank of Charleroi and Trust Company, Charleroi, Pennsylvania	60	
The Coraopolis National Bank, Coraopolis, Pennsylvania	<u>30</u>	90
<u>District No. 5</u>		
The Bank of Edenton, Edenton, North Carolina	24	24
<u>District No. 7</u>		
Poplar Grove Bank, Poplar Grove, Illinois	12	12

9/22/34

-13-

<u>Applications for ADDITIONAL Stock: (Continued)</u>		<u>Shares</u>
<u>District No. 9</u>		
The First National Bank of Alpha, Alpha, Michigan		6
The First National Bank of Le Roy, Le Roy, Minnesota		3
The Central National Bank of Minneapolis, Minneapolis, Minnesota		36
The First National Bank & Trust Company of Helena, Helena, Montana		90
The First National Bank of Midland, Midland, South Dakota		<u>11</u>
		146
<u>District No. 10</u>		
The First National Bank of Stratton, Stratton, Colorado		4
Traders Gate City National Bank of Kansas City, Kansas City, Missouri		18
The First National Bank of Tipton, Tipton, Oklahoma		<u>7</u>
		29
<u>District No. 11</u>		
The First National Bank of Elida, Elida, New Mexico		6
The First National Bank of Santa Rosa, Santa Rosa, New Mexico		3
The First National Bank of Albany, Albany, Texas		1
The First National Bank of Anson, Anson, Texas		12
First Coleman National Bank of Coleman, Coleman, Texas		3
First National Bank in Conroe, Conroe, Texas		9
The First National Bank of Jacksboro, Jacksboro, Texas		2
The City National Bank in Wichita Falls, Wichita Falls, Texas		12
Security State Bank & Trust Company of Beaumont, Beaumont, Texas		41
Eden State Bank, Eden, Texas		15
Farmers & Merchants State Bank, Ladonia, Texas		2
Farmers & Merchants State Bank of Shamrock, Shamrock, Texas		1
The Farmers & Merchants State Bank of Wylie, Wylie, Texas		<u>1</u>
		108

9/22/34

-14-

Applications for ADDITIONAL STOCK: (Continued)

	<u>Shares</u>	
<u>District No. 12</u>		
Bank of Newman, Newman, California	3	
Monterey County Trust and Savings Bank, Salinas, California	9	
Cashmere Valley Bank, Cashmere, Washington	15	
The Farmers Bank, Ellensburg, Washington	30	
The First National Bank of Bellflower, Bellflower, California	4	
The First National Bank of Caruthers, Caruthers, California	1	
First National Bank of Chico, Chico, California	3	
The First National Bank of Corona, Corona, California	1	
The First National Bank of Laton, Laton, California	2	
The Northern California National Bank of Redding, Redding, California	1	
First National Bank in San Leandro, San Leandro, California	3	
County National Bank and Trust Company of Santa Barbara, Santa Barbara, California	15	
The First National Bank of Malad City, Malad City, Idaho	5	
The Valley National Bank of Milton, Milton, Oregon	1	
The Utah State National Bank of Salt Lake City, Salt Lake City, Utah	150	
The First National Bank of Kirkland, Kirkland, Washington	3	246
	<u>Total</u>	<u>791</u>

Applications for SURRENDER of Stock:

<u>District No. 2</u>		
National Bank of America in Paterson, Paterson, New Jersey	330	330
<u>District No. 3</u>		
The First National Bank of Pleasantville, Pleasantville, New Jersey	105	
The Southwestern National Bank of Philadelphia, Philadelphia, Pennsylvania	<u>375</u>	480
<u>District No. 5</u>		
The Catonsville National Bank, Catonsville, Maryland	30	

9/22/34

<u>Applications for SURRENDER of Stock: (Continued)</u>		<u>Shares</u>	
<u>District No. 5 (Continued)</u>			
The First & Citizens National Bank of Elizabeth City, Elizabeth City, North Carolina		<u>59</u>	89
<u>District No. 9</u>			
The First National Bank of Hancock, Hancock, Michigan		120	
The First National Bank of Laurium, Laurium, Michigan		<u>90</u>	210
<u>District No. 10</u>			
The First National Bank of Trinidad, Trinidad, Colorado		180	180
<u>District No. 11</u>			
The Buchel National Bank of Cuero, Cuero, Texas		<u>105</u>	<u>105</u>
		<u>Total</u>	<u>1394</u>

Approved.

Thereupon the meeting adjourned.

Robert Moriel
Secretary.

Approved:

J. J. Lewis
Vice Governor.