

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Monday, October 15, 1934, at 3:00 p. m.

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

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary

The Committee considered and acted upon the following matters:

Memorandum dated October 10, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mrs. Helen Hassell, whose temporary appointment in the division expired on October 2 and was extended by the Board on September 28 for another period of three months, be permitted to take the required physical examination and, if she passes the examination, that her temporary status be discontinued and she be placed on a permanent basis with salary at the rate of \$1,400 per annum.

Approved.

Memorandum dated October 9, 1934, from the Committee on Salaries and Expenditures, submitting a letter dated October 4 from Governor Geery of the Federal Reserve Bank of Minneapolis, which requested approval of changes in the personnel classification plan of the Helena branch to provide for the discontinuance of two positions of "supervisor and custodian", and an increase in the salary range of the position of "supervisor and custodian", all in the Reconstruction Finance Corporation department. The memorandum stated that the committee had reviewed the proposed changes and recommended that they be approved.

Approved.

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Telegram dated October 13, 1934, approved by five members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, referring to the application of "The Miners Deposit Bank and Trust Company", Lykens, Pennsylvania, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal Reserve bank stock issued to The Miners Deposit Bank and Trust Company, the Federal Reserve Bank of Philadelphia is authorized to cancel such stock and make a refund thereon.

Approved.

Letter dated October 13, 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:

"Reference is made to your letter of September 17, 1934, in connection with the absorption on March 2, 1932, of the Peoples State Bank, Sigel, Illinois, a nonmember bank, by the 'Effingham State Bank', Effingham, Illinois.

"From the information submitted it appears that the member bank assumed liabilities of the Peoples State Bank aggregating approximately \$174,121, and acquired all of the assets of that bank on a liquidation basis; that liquidation of the assets acquired has been completed and the bank has suffered no loss in connection therewith, and that the transaction did not result in any change in the corporate existence or in the general character of the assets of the member bank which would constitute a violation of the conditions under which it was admitted to membership.

"Accordingly, the Board will take no action affecting the membership of the Effingham State Bank by reason of the transaction."

Approved.

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Telegram dated October 13, 1934, approved by five members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, stating that the Board has given consideration to the application of the "Worcester Depositors Corporation", Worcester, Massachusetts, 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 following banks:

"Worcester County National Bank of Worcester", Worcester,  
Massachusetts

"Second National Bank of Barre", Barre, Massachusetts

"North Brookfield National Bank", North Brookfield,  
Massachusetts

"The Spencer National Bank", Spencer, Massachusetts

and has authorized the issuance of a limited permit to the applicant for the following purposes:

"At any time prior to December 31, 1934, to act upon a proposal or proposals for the voluntary liquidation of said banks in accordance with a certain plan, entitled 'Worcester Bank & Trust Company - Plan of Reorganization for Reopening of the Trust Company and for Retirement of Certificates of Worcester Depositors' Corporation', dated September 19, 1934, copies of which have been filed with the Federal Reserve Board, and to authorize the sale of the assets of said banks and such other action as may be necessary to carry out such plan and to effect the liquidation of said national banks."

The telegram requested that the agent advise the applicant that unless the stock of the national banks is voted before the conservatorship of the Worcester Bank and Trust Company is terminated, the question may arise whether the trust company is a holding company affiliate of the national banks and required to obtain a voting permit before the stock of such banks may be validly voted, that the issuance of the limited voting permit authorized by the telegram does not indicate approval of the

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application for membership to be filed under the plan referred to above, and that such application must be considered on its own merits. The telegram also authorized the agent to have prepared by counsel for the Federal Reserve Bank, and to issue to the Worcester Depositors Corporation, a limited voting permit in accordance with the telegram.

Approved.

In connection with the above, there was presented a second telegram dated October 13, 1934, approved by five members of the Board, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, stating that the Board has given consideration to the application of the "Worcester County Shares Association", Worcester, Massachusetts, 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 following banks:

"Second National Bank of Barre", Barre, Massachusetts

"North Brookfield National Bank", North Brookfield,  
Massachusetts

"The Spencer National Bank", Spencer, Massachusetts

and has authorized the issuance of a limited permit to the applicant for the following purposes:

"At any time prior to December 31, 1934, to act upon a proposal or proposals for the voluntary liquidation of said banks in accordance with a certain plan, entitled 'Worcester Bank & Trust Company - Plan of Reorganization for Reopening of the Trust Company and for Retirement of Certificates of Worcester Depositors' Corporation', dated September 19, 1934, copies of which have been filed with the Federal Reserve Board, and to authorize the sale of the assets of said banks and such other action as may be necessary to carry out such plan and to effect the liquidation of said national banks."

The telegram requested that the agent advise the applicant that unless

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the stock of the national banks is voted before the conservatorship of the Worcester Bank and Trust Company is terminated, the question may arise whether the trust company is a holding company affiliate of the national banks and required to obtain a voting permit before the stock of such banks may be validly voted, that the issuance of the limited voting permit authorized by the telegram does not indicate approval of the application for membership to be filed under the plan referred to above, and that such application must be considered on its own merits. The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Worcester County Shares Association, a limited voting permit in accordance with the telegram.

Approved.

Telegram dated October 12, 1934, approved by four members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 20 interpreting Regulation T. In response to two inquiries with respect to the time when the seven day period allowed under section 6 of Regulation T begins to run in connection with bona fide cash transactions, the Federal Reserve Board ruled that: PARAGRAPH 1. In the case of a bona fide cash transaction in which a broker purchases a security as agent for a customer and makes payment to the seller of the security, the seven day period commences to run when the broker pays for the security without having received payment from his customer. PARAGRAPH 2. In the case of a bona fide cash transaction in which a dealer acting as principal or as agent for the seller sells a security to a customer, the seven day period commences to run when title to the security passes to the customer without the customer having paid for the security. PARAGRAPH In both cases and in all other cases involving cash transactions, the seven day period commences to run when the relation of debtor and creditor arises between the purchaser and the creditor as a result of the cash transaction. PARAGRAPH In this connection, the Board explained that the sole purpose

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"of section 6 is to allow the extension of credit for limited periods of time in connection with bona fide cash transactions and that this section does not place any restrictions upon a bona fide cash transaction which does not result in any debtor and creditor relationship between the customer and the broker or dealer."

Approved.

Telegram dated October 13, 1934, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 21 interpreting Regulation T. In response to an inquiry with respect to guaranteed accounts, the Board advises that under section 8(d) of Regulation T, a creditor may regard as an unrestricted account any account which is guaranteed in writing for an amount sufficient to make such account an unrestricted account by a person who has an account with such creditor containing a cash credit balance and/or securities of sufficient loan value, to make such guaranteed account an unrestricted account in addition to providing the margin required by Regulation T on the guarantor's account."

Approved.

Telegram dated October 13, 1934, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 22 interpreting Regulation T. The Federal Reserve Board has been asked to rule on the question whether there is an extension of credit by a creditor to a customer within the meaning of the Board's Regulation T in the case presented by the following facts: A firm having membership in a national securities exchange and an individual member of the exchange form a joint account for transactions in securities. The individual provides no capital but furnishes to the joint account service in purchasing and selling the securities. The firm pays for the securities bought, furnishes the securities sold and 'clears the account'. In these circumstances, the Board has ruled that such relationship does not constitute a creditor-customer relationship, within the meaning of Regulation T, between the firm and the joint account or the firm

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"and the individual, and that, therefore, such transactions are not subject to the provisions of the regulation governing extensions of credit to a customer."

Approved.

Telegram dated October 13, 1934, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 23. Interpreting Regulation T. In response to an inquiry the Federal Reserve Board has ruled that, in calculating the net debit balance of an arbitrage account within the meaning of Section 3(d) of Regulation T, both the long commitments and the short commitments in securities should be taken into consideration."

Approved.

Telegram dated October 13, 1934, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 24. Interpreting Regulation T. In response to inquiries as to whether particular transactions come within the provisions of Regulation T and the Securities Exchange Act of 1934 in view of Section 8(h) of the Regulation and Section 30(b) of the Act, the Federal Reserve Board has expressed the following opinions: PARAGRAPH (1) When a creditor with a foreign branch office which is carrying securities in a foreign country for a foreign customer executes within the United States an order for the purchase of a registered security for such foreign customer, such transaction is subject to provisions of Regulation T and is not excepted therefrom by Section 8(h) thereof. PARAGRAPH (2) A creditor borrowing in the United States on any registered security in the ordinary course of business as a broker or dealer must comply with the provisions of Regulation T and of the Act with respect to such borrowing, regardless of whether or not the security is held for the account of a foreign customer."

Approved.

Telegram dated October 13, 1934, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading

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as follows:

"Ruling No. 25 interpreting Regulation T. The Federal Reserve Board has been asked to rule upon the following question: 'A customer with a restricted account desires to substitute securities. The substituted securities must have a current market value equal to that of the securities withdrawn; otherwise, there would be a net withdrawal, under Regulation 4(d). The question is whether the substituted securities must also have a loan value equal to that of the securities withdrawn'. The Board replied that, under section 4(d) of Regulation T, neither the current market value nor the maximum loan value of the securities substituted in a restricted account should be less than the current market value or the maximum loan value, respectively, of the securities withdrawn, unless any difference between such values is made up by a deposit of cash or unless the account is made an unrestricted account."

Approved.

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

"This refers to Mr. Anderson's telegram dated July 21, 1934, which reads as follows:

'Has the Board ruled whether capital debentures sold to R F C or otherwise may be considered capital for the purpose of establishing loan limits.'

"Although the above telegram is not specific, it is assumed that Mr. Anderson desires a ruling upon the question whether capital notes and debentures sold to the Reconstruction Finance Corporation by State member banks may be considered as capital or capital stock for the purpose of determining limitations under the following sections of the Federal Reserve Act: section 9, which provides a limitation upon purchasing, selling, underwriting, and holding, by member banks, of investment securities; sections 9 and 13, which provide limitations upon the amount of paper of any one borrower which a Federal reserve bank may rediscount for a member bank; section 13, which provides a limitation upon the amount of drafts or bills of any one borrower which a member bank may accept, upon the total amount of bills which a member bank may accept, and upon the amount of drafts or bills which may be accepted by a member bank for the purpose of providing dollar exchange; section 11(m), which provides a limitation upon the amount which a member bank may loan upon the security of stock or bond collateral; section 12B(e), which provides for the amount of stock of the Federal Deposit Insurance Corporation for which a member bank organized after June 16, 1933, may apply during the first twelve months after its organization; section 19,

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"which provides a limitation upon the sum which a member bank shall keep on deposit with a nonmember State bank; section 23A, which provides a limitation upon the amount which a member bank may invest in or loan upon stocks, bonds, debentures, or other such obligations of an affiliate; and section 24A, which provides a limitation upon the amount which a member bank may invest in bank premises or the stock, bonds, debentures, or other such obligations of a corporation holding the bank's premises, and upon the amount which a member bank may loan upon the stock of such a corporation. A similar question arises under section 210 of the Agricultural Credits Act of 1923, which provides a limitation upon the amount of stock of National Agricultural Credit Corporations in which a member bank may invest.

"In view of the ruling of the Board contained in its telegram to all Federal Reserve Agents, dated November 8, 1933, (Trans. 1905), and in view of the later amendment to section 9 of the Federal Reserve Act, contained in the Act of June 16, 1934, which provides that, for the purposes of membership of any State bank, the terms capital and capital stock shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation, the Federal Reserve Board is of the opinion that capital notes and debentures legally issued by State member banks and purchased by the Reconstruction Finance Corporation should be considered as capital or capital stock in determining limitations under the above mentioned sections.

"However, since the above mentioned amendment to section 9 of the Federal Reserve Act does not refer to capital notes and debentures sold to others than the Reconstruction Finance Corporation, any notes or debentures not sold to the Reconstruction Finance Corporation may not be included in determining the limitations above referred to. Likewise, since the above mentioned amendment to section 9 refers only to capital notes and debentures issued by State member banks, the above opinion is applicable only to State banks. In this connection, however, it is understood that it is not the practice of national banks to issue capital notes or debentures.

"You will understand, of course, that the Board's advice in this matter is not intended to refer to limitations fixed by State statutes, as the construction of such statutes is within the jurisdiction of the appropriate State supervisory authorities rather than the jurisdiction of the Board."

Approved.

Letter dated October 13, 1934, approved by five members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

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"Receipt is acknowledged of your letter of October 5 in regard to the revocation of the Clayton Act permit granted on April 28, 1931 to Mr. L. W. Estes, Washington, D. C., to serve at the same time as officer and director of The Columbia National Bank of Washington and as a director of The Washington Loan and Trust Company, both of Washington, D. C.

"The Board has considered Mr. Estes' request that he be allowed to continue his service until the January election of directors of these banks, at which time he will decline election to serve on the board of one of the banks. In view of the circumstances and your favorable recommendation, the Board is willing to continue in effect until the January election of directors of these banks the permit granted to Mr. Estes, with the understanding that he will at that time decline election as an officer and/or director of one of the banks involved. In order that the Board's files may be complete, it is requested that you review this permit immediately following the January election of directors of these banks and inform the Board as to the action taken by Mr. Estes in this matter."

Approved.

There was then presented the following application for a change in stock of a Federal reserve bank:

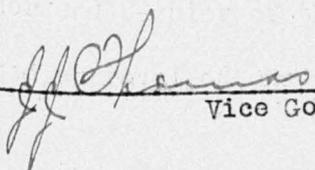
<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 3.</u>		
The Mainland National Bank of Pleasantville, Pleasantville, New Jersey	75	75

Approved.

Thereupon the meeting adjourned.

  
 Assistant Secretary

Approved:

  
 Vice Governor.