

A meeting of the Federal Reserve Board was held in Washington on Friday, December 7, 1934, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Letter dated December 6, 1934, from Mr. Sproul, Secretary of the Federal Reserve Bank of New York, and telegrams dated December 7, 1934, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated November 27, 1934, from Mr. Paulger, Chief of the Division of Examinations, submitting and recommending the acceptance, effective as of the close of business on that date, of the resignation of Miss Hazel E. Patrick who had been employed temporarily as a clerk in the division.

Approved.

Memorandum dated December 5, 1934, from Mr. Paulger, Chief of the Division of Examinations, recommending the temporary

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appointment, for a period of one month, of Mr. Ernest E. Huyett as a stenographer in the division, with salary at the rate of \$120 a month, effective as of the date upon which he enters upon the performance of his duties.

Approved.

Memorandum from Mr. Carpenter, Assistant Secretary, stating that the recent elections at Federal reserve banks resulted in the election of the following Class A and B directors, each for a term of three years beginning January 1, 1935:

<u>Name</u>	<u>Class A Directors</u>	<u>Bank</u>
* F. S. Chamberlain		Boston
* G. W. Davison		New York
* J. B. Henning		Philadelphia
* Chess Lambertson		Cleveland
* J. C. Braswell		Richmond
W. D. Cook		Atlanta
* E. R. Estberg		Chicago
* F. G. Hitt		St. Louis
* M. O. Grangaard		Minneapolis
* F. W. Sponable		Kansas City
Pat E. Hooks		Dallas
* C. K. McIntosh		San Francisco

<u>Name</u>	<u>Class B Directors</u>	<u>Bank</u>
* E. S. French		Boston
* T. J. Watson		New York
* C. F. C. Stout		Philadelphia
* R. P. Wright		Cleveland
* J. H. Hanna		Richmond
* J. B. Hill		Atlanta
* S. T. Crapo		Chicago
* W. B. Plunkett		St. Louis
* W. O. Washburn		Minneapolis
* J. M. Bernardin		Kansas City
* A. S. Cleveland		Dallas
* E. H. Cox		San Francisco
* Reelected		

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The memorandum also stated that the Board has been advised of the election of Mr. Edwin Malloy as a Class B director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1935, to succeed Mr. D. R. Coker, who resigned as of August 9, 1934.

Noted.

Letter to Mr. A. Davids, Brookfield, Illinois, reading as follows:

"Receipt is acknowledged of your letter of November 27, 1934, addressed to Governor Eccles, in which you call attention to a reduction made in your salary as a painter at the Federal Reserve Bank of Chicago.

"The question of compensation of employees of a Federal reserve bank is primarily within the jurisdiction of the board of directors of the bank, and as the Federal Reserve Board is advised that a survey was made recently by the Federal Reserve Bank of Chicago looking toward the increased efficiency and more economical operation of the bank which resulted in the adjustment of a number of salaries, and as it appears from your letter that the adjustment in your salary was made in order to bring it more in line with the scale of salaries now in effect for painters in Chicago, it does not appear that there is any basis for action by the Federal Reserve Board.

"However, inasmuch as your letter indicates that in your opinion the adjustment in your salary was not justified, it is suggested that you take the matter up with the person who has supervision of your work in the bank."

Approved.

Letter to the board of directors of the "First State Bank of King City, Missouri", stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Kansas City.

Approved.

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

"Reference is made to the Board's letter of July 25, 1934, addressed to the Federal Reserve Agent at Kansas City, a copy of which was sent to you, in regard to the application of 'The First National Bank at Ponca City', Ponca City, Oklahoma, for permission to exercise fiduciary powers, from which it will be noted that the Board deferred action upon the bank's application until it had been in operation for at least one year, and a report of examination made subsequent to such period was available.

"In this connection, there is transmitted herewith a letter dated November 23, 1934 from the Federal Reserve Agent at Kansas City advising that the applicant bank was examined on October 9, 1934, and submitting an analysis of the examiner's report. Although this examination was made approximately ten months after the bank was chartered, the Board, in view of the favorable recommendation of the Federal Reserve Agent at Kansas City, will consider the application without awaiting the expiration of the stipulated one year period, and would be pleased to receive your further recommendation in the premises.

"Kindly return the attached papers with your reply."

Approved.

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

"Reference is made to Mr. Awalt's memorandum of November 8, 1934, in regard to the proposed reduction in common capital stock of 'The First National Bank of Batavia', Batavia, Ohio.

"In reviewing this case consideration has been given to the various factors involved, including the existing large capitalization, common and preferred, as compared to deposits, as well as the large amount of assets classed as slow, doubtful and loss, the securities depreciation not classified, the heavy investment in fixed assets and defaulted bonds, and the unsatisfactory management, which is characterized by your examiner as weak at best. Consideration has also been given to the fact that the amount of the proposed reduction, while sufficient to eliminate estimated losses, would not place the institution in a satisfactory condition, and that it has no surplus to protect against remaining criticized assets.

"In view of the many unsatisfactory features present in the condition and management of the bank, and the adverse

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"recommendation of the Assistant Federal Reserve Agent at Cleveland, the Board is reluctant to approve the proposed capital reduction, involving as it does the release of the stockholders' liability to the extent of \$30,000, and would prefer to await another examination before making a final decision in the matter. Inasmuch as the bank was last examined as of June 25, 1934, it is assumed that it will again be examined early in 1935, at which time the Board will be pleased to reconsider the case. It is to be hoped that in the meantime the bank may be able to effect improvements in its condition which will warrant favorable action being taken on the proposed capital adjustment."

Approved.

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

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Fort Pierre National Bank', Fort Pierre, South Dakota, from \$25,000 to \$15,000, pursuant to a plan which provides that the released capital shall be used to eliminate a corresponding amount of unsatisfactory assets, all as set forth in Mr. Awalt's memorandum of November 24, 1934.

"It is understood that the subject bank increased its capital structure on November 5, 1934, through the sale of \$25,000 Class 'A' preferred stock to the Reconstruction Finance Corporation and \$10,000 Class 'B' preferred stock to local interests."

Approved.

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

"In accordance with Acting Comptroller Awalt's recommendation, the Federal Reserve Board approves a reduction in the common capital stock of 'The Red River National Bank in Clarksville', Clarksville, Texas, from \$100,000 to \$50,000, pursuant to a plan which provides that the bank's capital shall be increased by \$50,000 of preferred stock to be sold to the Reconstruction Finance Corporation, and that the released capital shall be used to eliminate or reduce undesirable assets, all as set forth in Mr. Awalt's letter of November 24, 1934."

Approved.

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Telegram to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, stating that the Board has given consideration to the application of "Eric P. Swenson, John A. Garver and Joseph P. Grace, and their successors, Trustees under Trust Agreement dated June 29, 1929 on behalf of the shareholders of The National City Bank of New York", New York, New York, for a voting permit under the authority of section 5144 of the Revised Statutes of the United States, as amended, entitling such organization to vote the stock which it owns or controls in the "City Bank Farmers Trust Company", New York, New York, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"(1) Prior to the issuance of the limited voting permit authorized herein, the Federal Reserve Agent at the Federal Reserve Bank of New York shall satisfy himself that the applicant has charged off or otherwise eliminated (a) all losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities, and (d) all other losses as shown by the latest available report of examination by a national bank examiner, except that the chargeoffs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of New York.

"(2) Prior to the issuance of the limited voting permit authorized herein,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities and (d) all

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"other losses; as shown by the latest available reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit."

and for the following purposes:

"To elect directors of such bank at the annual meeting of shareholders, or at any adjournments thereof, at any time prior to April 1, 1935, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank."

The telegram requested that the agent call the attention of the City Bank Farmers Trust Company to the provision in condition No. 21 of its admission to membership in the Federal Reserve System that prior to January 1, 1935, The National City Bank of New York shall have obtained a general voting permit, and ascertain whether, in view of the incomplete status of exhibits L and N in the voting permit application now on file, the City Bank Farmers Trust Company of New York does not wish to apply for an extension of time within which this condition of membership may be fulfilled. The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the applicant, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

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Telegram dated December 6, 1934, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, stating that the Board has given consideration to the application of "G. W. Mead Securities Corporation", Chicago, Illinois, for a voting permit under the authority of section 5144 of the Revised Statutes, as amended, entitling such organization to vote the stock which it owns or controls in "The Illinois National Bank & Trust Co. of Rockford", Rockford, Illinois, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"(1) Prior to the issuance of the limited voting permit authorized herein,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities and (d) all other losses; as shown by the latest available reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit.

"(2) Simultaneously with the issuance of the limited voting permit authorized herein there shall be issued to Mead Corporation the limited voting permit authorized in the ANICIGAR telegram bearing the same date as this telegram."

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and for the following purposes:

"To elect directors of such bank at the annual meeting of shareholders, or at any adjournments thereof, at any time prior to April 1, 1935, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the G. W. Mead Securities Corporation, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

In connection with the above, there was presented a second telegram dated December 6, 1934, approved by five members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, stating that the Board has given consideration to the application of the "Mead Corporation", Chicago, Illinois, 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 Illinois National Bank & Trust Co. of Rockford", Rockford, Illinois, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"(1) Prior to the issuance of the limited voting permit authorized herein,

"(1) the Federal Reserve Agent shall satisfy himself that each of the subsidiary banks of the applicant has charged off or otherwise eliminated, (a) all losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities

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"not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities and (d) all other losses; as shown by the latest available reports of examinations by the appropriate supervisory authorities, except that the charge-offs and eliminations required by (b) and (c) above may be based upon current appraisals of marketable securities satisfactory to the Federal Reserve Agent;

"(2) the Federal Reserve Agent shall satisfy himself that the applicant has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Federal Reserve Board;

"(3) the Federal Reserve Agent and the Executive Committee of the Federal reserve bank shall approve the issuance of such permit.

"(2) Prior to the issuance of the limited voting permit authorized herein, applicant shall deliver to you Exhibit L, F.R.B. Form P-3, executed by Newaygo Timber Co., Limited, and Exhibit N, F.R.B. Form P-4, executed by Mead Corporation and consented to by Newaygo Timber Co., Limited, both of which exhibits shall be in form satisfactory to counsel for the Federal Reserve Bank of Chicago.

"(3) Simultaneously with the issuance of the limited voting permit authorized herein there shall be issued to G. W. Mead Securities Corporation the limited voting permit authorized in the ANCIGAR telegram bearing the same date as this telegram."

and for the following purposes:

"To elect directors of such bank at the annual meeting of shareholders, or at any adjournments thereof, at any time prior to April 1, 1935, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank."

The telegram also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Mead Corporation, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Letter to the Federal reserve agents at all Federal reserve

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banks, reading as follows:

"In connection with the issuance of limited and general voting permits to holding company affiliates under the provisions of section 5144 of the Revised Statutes of the United States, it is the Board's policy, as you know, to require that holding company affiliates and their subsidiary banks charge off or otherwise eliminate from their assets the following:

(a) all losses in loans and discounts, (b) all depreciation in stocks and defaulted securities, (c) all depreciation in securities not of the four highest grades as classified by a recognized investment service organization regularly engaged in the business of rating or grading securities and (d) all other losses, as shown by the latest available report of examination.

"In connection with the elimination of depreciation in securities under (b) and (c) above, the question has arisen as to what extent appreciation in securities may be deducted from the depreciation in other securities. This same general question has been ruled upon by the Board in connection with applications for membership, in a letter to all Federal Reserve Agents dated December 9, 1933 (X-7705). The principles stated in that letter should be applied with respect to the elimination of depreciation in securities in cases involving the issuance of voting permits.

"You are also advised that in connection with the elimination of depreciation in securities under (b) and (c) above, such elimination, in the case of readily marketable securities, may be based upon current market values of such securities."

Approved.

Telegram to the governors of all Federal reserve banks, reading as follows:

"I am informed that Governor Harrison is planning to have a meeting of the System Committee on Legislative Program on December 17 at Washington. As you know Section 12a of the Federal Reserve Act requires that meetings of the Federal Open Market Committee be held at Washington at least four times each year and only three have been held so far this year. Therefore I am calling a meeting of the Federal Open Market Committee to be held at Washington on December 17. However for your information I do not have in mind any special business to be presented for consideration by the committee

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"at that time."

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 39 interpreting Regulation T. Section 4(f) of Regulation T provides in part that the receipt in good faith of a check or draft drawn on a bank which in the ordinary course of business is payable on presentation, or the shipment in good faith of securities with sight draft attached may, for the purposes of the regulation, be deemed to be the receipt of payment of the amount of such check or draft. The Federal Reserve Board has been asked, in view of ruling number 34 interpreting Regulation T, whether this applies to 'cash transactions' in unregistered, non-exempted securities. In reply, the Board rules that the provisions of Section 4(f) of the regulation regarding the time when payment is deemed to be received apply to 'cash transactions' in unregistered, non-exempted securities as well as to 'cash transactions' in other securities."

Approved.

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 40 interpreting Regulation T. In reply to several inquiries regarding extensions of time in connection with 'cash transactions', the Federal Reserve Board rules that the jurisdiction of the business conduct committee or other suitable committee of a national securities exchange to grant extensions of time under section 6 of Regulation T is not confined to members of that exchange or to transactions on that exchange. Assuming the circumstances warrant an extension of time, the committee may grant such an extension of time to any member of that exchange or to any broker or dealer who transacts a business in securities through the medium of a member of that exchange. Furthermore, the committee may grant these persons such an extension of time not only in connection with transactions effected on the exchange, but also in connection with transactions not effected on the exchange. This applies to 'cash transactions' in unregistered, non-exempted securities, as well as to other 'cash transactions'; and it is not necessary that the transaction involve

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"a security registered on the exchange in question, or any other registered security."

Approved.

Letter to Mr. W. R. Burgess, Chairman, Subcommittee of the General Committee on Bankers' Acceptances, Federal Reserve Bank of New York, reading as follows:

"There are inclosed herewith copies of recent correspondence between Mr. H. S. Yohe, In Charge, Administration United States Warehouse Act, and the Federal Reserve Board and between the Board and the Federal Reserve Bank of Richmond relating to the question whether warehouse receipts securing bankers' acceptances comply with the requirement of the Board's Regulation A that they be issued by a party independent of the customer.

"You will observe that, among other points mentioned in this correspondence, Mr. Yohe makes the suggestion in his most recent letter that the Federal reserve banks check the collateral supporting bankers' acceptances in each case to determine whether it is of a kind which may properly be used for the purpose under the law and the regulations. You will note, however, that Governor Seay feels that this would not be practicable and states as a possible alternative that if the Federal Reserve Board wishes instructions will be given to the examiners in connection with their regular examinations of State bank members to look out for possible violations of the law and the regulations with respect to the acceptances secured by warehouse receipts. He also suggests that the Comptroller's Office would be interested in seeing that national banks are paying proper attention to the law and the regulations of the Board in this respect.

"As a basis for further consideration of the suggestions of Mr. Yohe and Governor Seay as to the checking of bankers' acceptances by Federal reserve banks, the Federal Reserve Board would like to have the views of your committee as to the advisability and practicability of investigating the collateral supporting bankers' acceptances in order to determine whether it complies with the requirements of the law and the regulations, either in the manner suggested by Mr. Yohe or the manner mentioned by Governor Seay or in some other manner. The consideration and advice of your committee on this subject will be greatly appreciated."

Approved.

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Telegram dated December 6, 1934, approved by five members of the Board, to Governor Schaller of the Federal Reserve Bank of Chicago, reading as follows:

"Referring your December 1 letter, without passing, at this time, upon specific amounts set forth in your letter, if book value of land on which head office and branch buildings are located is in excess of its estimated market value, Board will consider a request to write down book value to an amount not below estimated market value. Board will also consider request to charge off an amount in excess of the normal 2 percent depreciation charge on buildings occupied by head office and by branch. As in the past, Board will consider requests of Federal Reserve banks to set up additional reserves for self-insurance, for losses, and for other purposes. Such requests should be accompanied with detailed information as to the necessity for the reserve. The daily balance sheet, Form 34, for use in 1935 will contain an item 'Federal Reserve Board - building account', against which should be reported amounts paid to the Federal Reserve Board on account of assessments to cover the cost of the purchase of a lot and the erection of a building thereon for the Board's use. Question as to the extent to which such assessments should be charged off will be considered at a later date."

Approved.

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

"Reference is made to your letter of November 1, in response to the Board's letter, X-9003, of October 30, regarding the issuance of new gold certificates to the Federal Reserve banks.

"Balances in the Gold Settlement Fund and in the agent's gold fund on deposit with the Treasurer of the United States are not evidenced by any receipt other than the receipt given by the Treasurer of the United States for gold turned over to the United States Treasury on January 30, in compliance with the provisions of the Gold Reserve Act of 1934, and certificates of deposit issued as evidence of deposits made since January 30, 1934. It is not contemplated that gold certificates will be issued to the Federal Reserve Board by the Treasury as evidence of gold, or gold certificates, deposited with the Treasury by the Board for the account of the Federal Reserve banks and agents.

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"A photostat copy of the receipt given by the Treasurer of the United States for gold turned over to the United States Treasury on January 30, 1934, is inclosed. There is also inclosed a blank copy of the form used by the Treasurer of the United States in acknowledging the receipt of deposits in the banks' Gold Settlement Fund and in the agent's gold fund.

"As you know the Division of Bank Operations mails you, each week, a signed statement for reconciliation purposes, showing your balance in the gold fund as of Wednesday night and mails the bank a similar statement, each week, showing its balance in the Gold Settlement Fund. The combined balances in these two funds are carried in the daily statement of the United States Treasury against the caption, 'Gold certificate fund - Federal Reserve Board'.

"A comparison of that amount with the combined balances in the agent's gold fund and the banks' Gold Settlement Fund is made daily and any differences promptly reconciled.

"At close of business on Wednesday, November 28, 1934, the balance in the gold fund maintained by you with the Federal Reserve Board was \$498,395,000.00 and the balance of your bank in the Gold Settlement Fund maintained with the Federal Reserve Board was \$273,763,310.31."

Approved.

Letters to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. John F. Davis, for permission to serve at the same time as a director and officer of the Washington County Bank, Blair, Nebraska, and as a director of The Security National Bank of Laurel, Laurel, Nebraska.

Mr. J. S. Hall, for permission to serve at the same time as a director of the State Bank and Trust Company, Beeville, Texas, as a director of the First National Bank in George West, George West, Texas, and as a director of the First State Bank of Mathis, Mathis, Texas.

Mr. Michael G. Luddy, for permission to serve at the same time as a director of the First National Bank at Glendale, Glendale, California, and as a director of the Oilfields National Bank in Brea, Brea, California.

Approved.

There were then presented the following applications for

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changes in stock of a Federal reserve bank:

<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The Adrian State Savings Bank, Adrian, Michigan	89	
Grand Haven State Bank, Grand Haven, Michigan	<u>15</u>	104

Approved.

Thereupon the meeting adjourned.

Wesley Mowles
Secretary.

Approved:

W. C. ...
Governor.