

A meeting of the Federal Reserve Board was held in Washington on Friday, December 14, 1934, at 3:00 p. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
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 13, 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 schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated December 11, 1934, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment, for a period of three months, of Miss Jean G. Martz as a clerk in the division, with salary at the rate of \$1,620 per annum, effective as of the date upon which she enters upon the performance of her duties.

Approved.

Letter dated December 13, 1934, approved by four members of the Board, to the board of directors of "The State Bank", Fort Dodge, Iowa, 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

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of stock in the Federal Reserve Bank of Chicago.

Approved.

Letter dated December 13, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to Mr. Gidney's letter of November 28, 1934, recommending that 'The Bank of Elmira Heights', Elmira Heights, New York, and the 'Watkins State Bank', Watkins Glen, New York, be granted an extension of time to July 1, 1935, within which to comply with the condition of membership numbered 18, to which each of the banks is subject and which reads as follows:

'18. Within six months of the date of admission of such bank to membership, each holding company affiliate of the bank shall have obtained from the Federal Reserve Board, pursuant to the provisions of Section 5144 of the Revised Statutes, as amended, a voting permit, entitling it to vote the shares of stock now or hereafter owned or controlled by it, of such bank and of all of its other subsidiary member banks for all purposes.'

"Mr. Dillistin has previously advised that in the case of each of the two banks referred to in this letter the time within which compliance with condition of membership numbered 18 could be effected had been extended to December 1, 1934, in accordance with the provisions of the Board's letter of June 22, 1934, X-7928.

"In view of the fact that you have not been able to arrange concurrent examinations of all of the banks and corporations in the group, upon the basis of which examinations a general voting permit might be issued, and that neither the holding company affiliate nor the subsidiary banks are responsible for the delay in obtaining the voting permits in question, the Board, in accordance with the recommendation of your office, extends to July 1, 1935, the time within which The Bank of Elmira Heights and the Watkins State Bank may comply with condition of membership numbered 18. Please advise the banks accordingly."

Approved.

Letter dated December 13, 1934, approved by five members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as

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follows:

"There is attached an application of 'The Northern New York Trust Company', Watertown, New York, a member bank, for permission to establish and operate a branch at Alexandria Bay, New York.

"The applicant trust company was licensed to reopen on an unrestricted basis after the banking holiday and is not operating any branches at present. The city of Watertown has a population of 32,205. The village of Alexandria Bay, with a population of 1,952, is located in the Thousand Island resort section of New York, about 30 miles north of Watertown and at the present time is without banking facilities. The village was formerly served by The First National Bank of The Thousand Islands, Alexandria Bay, which was placed in receivership December 7, 1933, and it was reported that at the time of its closing the bank's deposits totaled approximately \$600,000.

"The New York State Banking Board and the Superintendent of Banks of the State of New York have authorized the trust company to establish a branch at Alexandria Bay and the Federal Reserve Agent at New York recommends that the application submitted herewith be approved.

"In the opinion of the Board the general condition of the trust company is such as to warrant the establishment of the branch and in view of the circumstances and the recommendation of the Federal Reserve Agent, the Federal Reserve Board recommends that you approve the establishment and operation of a branch at Alexandria Bay, New York, by The Northern New York Trust Company, Watertown, New York, on condition that:

Prior to the establishment of the branch at Alexandria Bay, New York, The Northern New York Trust Company, Watertown, New York, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$240,423.58 and depreciation of \$35,997 in investment securities other than those in the four highest grades, as classified by a recognized investment service organization regularly engaged in the business of rating and grading securities, all as shown in the report of examination of such trust company as of September 28, 1934, made by an examiner for the Federal Reserve Bank of New York.

"The attached file includes a letter dated November 23, 1934, with accompanying data from the Federal Reserve Agent at New York, reports of examination made by examiners of the New York State Banking Department and the Federal Reserve Bank of New York as of September 28, 1934, and a copy of a memorandum prepared by the Board's Division of Examinations. It will be appreciated if you will return this file when it has served your purpose and when you advise the Board of your action on

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"the application."

Approved.

Letter dated December 13, 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 Stewart National Bank of Livonia', Livonia, New York, from \$115,000 to \$46,000, pursuant to a plan which provides that the released capital shall be used to eliminate unsatisfactory assets, all as set forth in your memorandum of November 24, 1934. The action taken herein supersedes that set forth in the Board's letter of February 9, 1933.

"In considering the plan under which the reduction in common capital is to be effected, it has been noted that the condition of the bank after the proposed eliminations are effected will still be unsatisfactory and that the bank's adjusted capital will be seriously impaired by the operating deficit, securities depreciation and doubtful assets which remain unprovided for. It is assumed, however, that you have these conditions in mind and that whenever it is feasible to do so, you will obtain such further corrections as may be practicable."

Approved.

Letter dated December 13, 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 your letter of December 3, 1934, recommending approval of a reduction in common capital stock of the 'Security Trust Company', Wilmington, Delaware, from \$1,121,000 to \$672,600, pursuant to a plan which provides for the use of the released capital, together with a portion of the bank's surplus, profits and reserves, in eliminating losses and depreciation as shown in the report of examination as of June 28, 1934, aggregating approximately \$627,500, and for the retention of reserves sufficient to absorb such losses as may develop in the doubtful assets.

"It is noted that the conditions under which the subject

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"trust company was admitted to membership do not require the Board's approval of a reduction in capital, but that the directors of the trust company voluntarily accepted the uniform conditions numbered 1 to 18, inclusive, as revised March 11, 1933, and as amended June 30, 1933, and that number 9 of such conditions requires the Board's approval of any reduction in capital stock.

"As you were advised in the Board's letter to you dated May 5, 1934, in connection with the Carlisle Trust Company, Carlisle, Pennsylvania, it is doubtful whether the new conditions voluntarily accepted by the member trust company are legally effective, and, accordingly, it is doubtful whether the Board's approval of the proposed reduction of capital in the present case is required. The Board, however, has given consideration to the proposed transaction, and in view of the circumstances, and your favorable recommendation, will interpose no objection to the reduction in capital as outlined in your letter, provided that none of the released capital will be returned to stockholders but will be used in eliminating the losses and depreciation shown in the report of examination as of June 28, 1934; that the reduction has been approved by the State Bank Commissioner and that your counsel is satisfied as to the legal aspects of the case. Upon completion of the proposed plan, it is requested that you forward copies of any amendments to the trust company's charter which are adopted in connection with the reduction in capital.

"It is noted from the report of examination that the trust company carries in its investments various corporate stocks which the Board does not feel are suitable investments for funds of commercial banking institutions. It is requested that you advise the trust company of the Board's attitude in regard to the matter and suggest that such stocks be disposed of as soon as it is feasible to do so."

Approved.

Letter dated December 13, 1934, approved by four 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 November 30, 1934, transmitting the request of the 'Peoples Exchange Bank', Russellville, Arkansas, for permission to reduce its common capital stock from \$100,000 to \$50,000, pursuant to a plan which provides for the use of the released capital in eliminating substandard assets and/or augmenting the bank's surplus,

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"profits and reserves. In this connection it is observed that on October 18, 1934 the bank's capital was increased by the sale of \$50,000 of preferred stock to the Reconstruction Finance Corporation.

"In accordance with your recommendation, the Board approves the proposed reduction in the bank's capital, provided none of the released capital is returned to the stockholders but is used to eliminate substandard assets and/or augment the bank's surplus, profits and reserves, and with the understanding, of course, that the transaction has been approved by the Bank Commissioner of the State of Arkansas and that your counsel is satisfied as to the legality of the proceedings in connection therewith. It will be appreciated if you will forward copies of any amendments to the bank's charter which may be adopted in connection with the reduction in capital."

Approved.

Telegram to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, stating that the Board has given consideration to the application of "Western Massachusetts Investment Associates", Greenfield, 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:

"First National Bank & Trust Company of Greenfield", Greenfield, Massachusetts,

"The Crocker National Bank of Turners Falls", Turners Falls, Massachusetts,

"The Northfield National Bank", Northfield, Massachusetts,

and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"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

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"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."

and for the following purposes:

"To elect directors of such banks at the annual meetings 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 banks."

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

Approved.

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

"Reference is made to your letter of November 16, 1934, inclosing a copy of a letter from Gimbel Brothers, Inc., dated

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"November 5, 1934, requesting an expression of the Board's views with respect to the extent to which your examiners should audit the books and records of Gimbel Brothers, Inc., New York City, and its non-banking subsidiaries in connection with your examinations of Gimbel Brothers Bank and Trust Company, Philadelphia, Pennsylvania, and its affiliates.

"The voting permit application submitted by Gimbel Brothers, Inc., and the Board's files in connection therewith, indicate that the parent company, apart from the ownership of the State member bank, is engaged primarily in the department store business, operating directly and through subsidiaries seven department stores located in New York City, Philadelphia, Pittsburgh, Chicago and Milwaukee. The voting permit application indicated that, in addition to the member bank which is operated in the Philadelphia store for the convenience of its customers, the holding company affiliate had eleven non-banking subsidiaries presumably functioning as real estate holding companies and service corporations in connection with the operation of the department stores.

"According to the latest report of examination of the member bank in which your examiners participated, as of January 6, 1934, the bank had five directors as compared with seventeen directors of the holding company affiliate. All of the bank's directors were connected with the holding company affiliate, two being officers and directors of the applicant and three being officers only. Four of the bank's directors were also officers of the bank. It appears that Gimbel Brothers, Inc. is not an 'affiliate' of the bank, while the eleven subsidiaries of the holding company affiliate appear to be 'affiliates' as defined in the Board's Regulation P. Therefore, the holding company affiliate and all of its subsidiaries appear to be subject to examination as provided for in paragraphs 1 and 2 of the application for voting permit, and, in addition, the subsidiaries are subject to such examinations as shall be necessary to disclose fully the relations between such companies and the member bank and the effect of such relations, in accordance with section 9 of the Federal Reserve Act as amended.

"In its letter to you the applicant stated that it causes a complete and detailed audit of its affairs to be made each year by a reputable firm of certified public accountants and suggested that such accountants could prepare a statement that would meet your requirements if you would outline a plan so that preparation could be effected in advance of the annual audit, which is made as of January 31 of each year. The applicant inquired whether or not you would accept a copy of its Balance Sheet and Earnings Statement, certified to by its auditors, with assurance that the Federal reserve examiners

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"be granted access to the complete annual report of its auditors, and make such other inquiries or investigations through its auditors as may be deemed necessary to establish the fact that the holding company affiliate is complying with the agreements contained in its application and the applicable portions of the law, instead of requiring a detailed audit to be made by the examiners of the Federal Reserve Bank. The applicant stated that the annual business of its stores amounts to approximately \$72,000,000, whereas the bank has deposits of only approximately \$1,780,000, and pointed out that an additional examination of the holding company affiliate would impose not only a great hardship but could serve no useful purpose.

"It is understood from the applicant's letter and oral statements to you that the auditors' annual reports contain a considerable amount of information which is probably of little or no value to you in determining the effect upon the member bank of the holding company affiliate relationship, and that the applicant feels that if the auditors' complete report is furnished to you there is a possibility that certain important information concerning its business might get into the hands of important trade competitors. Therefore, the applicant desires to retain all copies of the auditors' complete reports with the understanding and agreement that they will be available to your examiners at all times.

"In the circumstances in this case, it appears that for all practical purposes and in order to meet the requirements of the statute, examinations along the following lines ordinarily would be sufficient:

- "(1) If deemed practicable and advisable, the examination of the bank in which your examiners expect to participate might be arranged simultaneously with, or a short time before or after, the time at which the certified public accountants are making their regular annual audits of the holding company affiliate and its subsidiaries.
- "(2) Your examiners should study or analyze previous audit reports covering the holding company affiliate group with a view to determining to what extent, if any, they should participate in the audit or in making special inquiries or investigations, and the extent to which the auditors should be requested to go in developing detailed information on certain matters.
- "(3) Your examiners should outline to the auditors the data to be covered and the type of special report which they desire to be submitted to them. Such reports should be properly certified by the auditors and should cover at least the following:

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- "(a) Balance sheets, supported by the necessary schedules;
 - "(b) Statements of profit and loss, sufficiently detailed to show sources of all significant items of income and expenses;
 - "(c) Analyses of all surplus, reserves, and undivided profits accounts, to determine if the holding company affiliate is complying with the statute and paragraph 7 of the application for voting permit, with respect to the payment of dividends from actual earnings after provision has been made for any impairment of capital; and
 - "(d) Schedules and explanations of any balances of borrowings or of other transactions of the holding company affiliate and/or any of its subsidiaries, particularly inter-company balances, of such character or extent as might have an important bearing on the financial condition and the character of the management of the member bank, or affect adversely the relations between the holding company affiliate and the member bank.
- "(4) If the facts seem to justify, the same types of reports covering the applicant's subsidiary non-banking organizations should be furnished.
- "(5) Any changes in the nature of the business and transactions of the holding company affiliate or its subsidiaries which might render the relations with the member bank a violation of the law should be covered.

"It is understood, of course, that the foregoing comments do not constitute an outline which defines or limits the procedure to be followed by your examiners. Any lines of credit or advances to, or other transactions with, the holding company affiliate or its subsidiaries which are found in their examination of the member bank, and any other factors which they see reflected in the auditor's reports, should indicate or determine the extent to which your examiners should make independent investigations, or participate in the audits of the affiliated organizations. In view of the statutory requirements and the agreement contained in paragraph 7 of the application for voting permit with respect to the payment of dividends, it seems desirable that your examiners determine, in this and all other cases, that the net earnings have been properly shown by the auditors whose reports are relied upon. In this connection, it is assumed that the auditors and your examiners will determine

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"that the method of taking and pricing inventories is sound and reasonably accurate, and that the carrying values of fixed assets are based upon satisfactory appraisals or cost figures, against which ample depreciation reserves have been set up regularly. In your discussions or communications with representatives of the member bank and its affiliated organizations relative to the extent to which your examiners may audit or examine the books and records of the organizations affiliated with the member bank, it is assumed that you will cause such representatives to understand that you are not waiving any rights or requirements, as provided by the statutes or the agreements contained in the application for voting permit, with respect to any or all future examinations."

Approved.

Telegram dated December 13, 1934, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, stating that the Board has given consideration to the application of the "Marshall-McCartney Company", Oakes, North Dakota, 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 First National Bank of Oakes", Oakes, North Dakota, and has authorized the issuance of a limited permit to the applicant, subject to the following conditions:

"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,

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"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 also authorized the agent to have prepared by counsel for the Federal reserve bank, and to issue to the Marshall-McCartney Company, a limited voting permit in accordance with the telegram when the conditions prescribed therein have been complied with.

Approved.

Letter dated December 13, 1934, approved by five members of the Board, to Mr. Frank M. Skillman, Cashier of The Farmers National Bank, Deposit, New York, reading as follows:

"Reference is made to your letter dated December 3, 1934, in which you request a ruling upon the question whether the Nielsen Brothers Lumber Company, Incorporated, is an affiliate of the Farmers National Bank, Deposit, New York, within the meaning of section 2(b)(1) or section 2(b)(3) of the Banking Act of 1933.

"The relationship between the lumber company and your bank is described in your letter as follows:

"John Nielsen and William Nielsen, two members of our Board of Directors own practically all of the stock of the Nielsen Brothers Lumber Company, Incorporated. Their Board

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"of Directors consists of three members of which they are the majority. They have been operating the lumber company for some years.

"John Nielsen has been a Director for about one year and William Nielsen was elected a Director of this bank at our annual meeting in January. We wish to know if this makes the Nielsen Brothers Lumber Company an affiliate of this bank. We would also like to know if the Corporation is an affiliate under section 2-B-1 or section 2-B-3 or both.

"The Nielsen Brothers Lumber Company is not borrowing at this bank nor are they in the habit of borrowing. However, they have at times put loans in the bank."

"In view of the fact that Mr. John Nielsen and Mr. William Nielsen, who constitute a majority of the directors of the lumber company, are also directors of your bank, the lumber company is an affiliate of your bank within section 2(b)(3) of the Banking Act of 1933.

"There is nothing in the above statement of facts which would indicate that the lumber company is an affiliate of your bank within the meaning of section 2(b)(1) of the Banking Act of 1933, although there may, of course, be factors other than those stated above which would cause the lumber company to be an affiliate within the meaning of such section. The mere fact that two of the directors of your bank own all of the stock of the lumber company would not make such corporation an affiliate of your bank under section 2(b)(1), unless your bank controls the manner in which the two directors vote the stock which they own of the lumber company.

"In view of the fact that the Nielsen Brothers Lumber Company, Incorporated is an affiliate of your bank, the provisions of section 23A of the Federal Reserve Act are applicable to loans or extensions of credit by your bank to such affiliate, and to investments by your bank in, or loans by your bank upon, the stock or obligations of such affiliate.

"It is believed that the above opinion will provide an answer to your questions. If, however, there are any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Agent at the Federal Reserve Bank of New York regarding such questions."

Approved.

Letter dated December 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:

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"Receipt is acknowledged of your letter of November 28, 1934, submitting an opinion of your counsel suggesting that, where an executive officer of a member bank borrows from another bank, and there is no person designated as chairman of the member bank's board of directors, the purpose of the requirement of section 22(g) of the Federal Reserve Act regarding reports of borrowings from other banks by executive officers would be carried out if the executive officer files a written report of his indebtedness with his board of directors and such report is spread on the board's minutes. You request to be advised whether this opinion is in accord with any opinion which may have been expressed by the Federal Reserve Board regarding a question of this kind.

"As you know, section 22(g) of the Federal Reserve Act does not contain any specific provisions applicable to a situation such as that considered by your counsel; but, the section provides a penalty of fine or imprisonment for violations of its provisions. In the circumstances the determination of the question whether an executive officer of a member bank could be prosecuted for such violations is a matter entirely within the jurisdiction of the Department of Justice and an expression of opinion by the Federal Reserve Board as to what constitutes a compliance with the requirements of this section with respect to the reports of indebtedness by executive officers of member banks would not afford protection from criminal prosecution if that department, upon consideration of the matter, should take the position that the transaction in question was within the statute, and should feel it necessary to prosecute for a violation of this provision. Accordingly, the Board does not feel that it would be appropriate for it to undertake to express an opinion regarding the matter about which you have inquired. However, the Board knows of no reason to raise any question with regard to the manner in which your counsel has suggested that the matter be handled."

Approved.

Letter dated December 13, 1934, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of November 30, 1934, regarding the cost of examinations of State member banks and stating that with very few exceptions all examinations of State member banks which you will make until July 1, 1935, will be made solely for insurance certification purposes and

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"that your Executive Committee has voted to absorb the costs of such examinations. In the circumstances, it will not be necessary that you furnish the Board with a special advice of each case in which the charges will be waived, together with a restatement of the reasons given in your letter of November 30, for the waiving of such charges."

Approved.

Letter dated December 13, 1934, approved by four members of the Board, to Mr. H. W. Haight, New Brunswick, New Jersey, reading as follows:

"The letter of December 3, 1934, which you addressed to the Securities and Exchange Commission regarding the carrying of accounts by brokers has been referred to the Federal Reserve Board for reply, and in this connection there is inclosed for your information a copy of Regulation T, which the Federal Reserve Board has issued on the subject of margin requirements under the provisions of the Securities Exchange Act of 1934.

"There is nothing in this regulation which, in the absence of new transactions, requires a broker to demand additional margin or to close out all or part of any account. However, you will understand that it does not prevent a broker from demanding additional margin or from taking such other steps as may be properly authorized by the contract existing between the broker and his customer, and which the broker considers necessary for his own protection.

"The question of examining or requiring reports of brokers in order to determine whether they are complying with the Securities Exchange Act of 1934 and the regulations issued thereunder is a subject which is now under consideration by the Federal Reserve Board and, also, it is understood, by the Securities and Exchange Commission. Therefore, it is not possible to advise you at present regarding the nature or frequency of such examinations or reports.

"In order to avoid the duplication of requests for rulings under Regulation T, the Federal Reserve Board distributes rulings and receives inquiries regarding the regulation through the national securities exchanges and the Federal Reserve Agents at the Federal reserve banks. It is suggested, therefore, that any further inquiries you may have on this subject be submitted to your broker or to the Federal Reserve Agent at the Federal Reserve Bank of New York.

"Since the question which you present regarding the responsibility of brokers in cases of insolvency is not one within

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"the jurisdiction of the Federal Reserve Board, and since it is governed by the applicable principles of law relating to bankruptcies and insolvencies, it is suggested that you consult a competent local attorney of your own selection if you desire further information on that subject."

Approved.

Letter dated December 13, 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:

"Reference is made to Mr. Oliver P. Wheeler's letter of October 24, 1934, regarding the meaning of the term 'member' of a national securities exchange as used in Regulation T and section 3(a)(3) of the Securities Exchange Act of 1934.

"It is understood that members of the Pacific Coast Association of New York Stock Exchange Firms, in order to cover the increased costs of doing business at such a distance from New York City, add a 'coast differential' of \$5 per 100 shares to the standard commission schedule of the New York Stock Exchange and charge their customers this increased commission according to the following practice. This additional charge is made in all States in the Twelfth Federal Reserve District except Nevada, but banks, certain members of 'approved' stock exchanges, and certain investment trusts, are not charged the additional 'coast differential'. Certain security dealers who are not members of exchanges also secure the standard commission rates without addition of the 'coast differential' by transacting their New York business over leased wires of correspondent dealers; and the general public may similarly avoid payment of the 'coast differential', if it wishes, by transacting business directly, and at its own expense, with brokerage firms which do not have offices in the Pacific Coast territory.

"As you know, section 3(a)(3) of the Securities Exchange Act of 1934, which is incorporated in Regulation T, provides in part that:

'The term "member" when used with respect to an exchange means any person who is permitted * * * to make use of the facilities of an exchange for transactions thereon * * * with the payment of a commission or fee which is less than that charged the general public * * *.'

"Mr. Wheeler asks whether a bank or a security dealer in the Twelfth District should be considered a 'member' of the New York Stock Exchange within the meaning of Regulation T

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"merely because such bank or security dealer is not required to pay the 'coast differential' on transactions on that exchange. He also asks whether in the case of national banks this 'coast differential' may properly be considered a service charge within the meaning of the ruling of the Comptroller of the Currency (No. 62 of June 28, 1934) which states that 'national banks have the right to purchase and sell stocks solely upon the order and for the account of customers * * * and any charge must not exceed the actual cost of servicing'.

"The Federal Reserve Board is of the opinion that in the circumstances indicated above, the mere fact that a bank or a security dealer is not required to pay the 'coast differential' does not constitute such bank or security dealer a 'member' of the New York Stock Exchange within the meaning of Regulation T. Since Mr. Wheeler's question regarding the ruling of the Comptroller of the Currency is outside the jurisdiction of the Board, it is suggested that any national bank requesting such an interpretation of that ruling be referred to the Comptroller of the Currency."

Approved.

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

"Reference is made to your letter of November 14, 1934 and the inclosed copies of further correspondence with Mr. J. T. Bowman regarding his application under the provisions of section 32 of the Banking Act of 1933 for a permit to serve as a director of the American National Bank and as president and director of Southwest Investment Company, both of Austin, Texas.

"As you point out, Mr. Bowman has failed to answer specifically the questions contained in the Board's letter of October 10 regarding the future intentions of the company in connection with purchasing, selling and distributing securities. He has, however, submitted a list of stocks and bonds held by the company on December 31, 1933, which shows that twelve blocks of stock of a total value of \$75,528.25 were then held, of which three blocks having a value of \$50,500 have since been exchanged for promissory notes or real estate. It does not appear that the company has acquired any stocks or bonds in the interval. Mr. Bowman states that he is anxious to sell the real estate and dissolve the corporation as soon as possible, but adds that the two other gentlemen who have the greater

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"interest in the company are away and that he would like to discuss the matter with them before making a definite statement.

"On the basis of the information which has been submitted, it is doubtful whether the company should be regarded as engaged primarily in the business of purchasing, selling or negotiating securities within the meaning of section 32 and although, as you point out, there has apparently been considerable reluctance on Mr. Bowman's part to furnish information regarding the activities of the company and its future intentions in connection with dealing in securities, it seems advisable to allow Mr. Bowman to confer with the other two gentlemen who have a large interest in the company so that he may then advise you whether or not it will definitely terminate all activities in connection with dealing in securities and will be liquidated.

"It seems probable from Mr. Bowman's letter that he may be able to advise you of this fact in the near future. It is therefore requested that you advise the Board not later than January 1, 1935, whether you have received such advise from Mr. Bowman. If you have not, and if an adequate explanation is not given, it would seem that the Board should assume that the company does not propose to terminate such activities and that the provisions of section 32 should therefore be regarded as applicable to the relationship covered by Mr. Bowman's application."

Approved.

Letter dated December 13, 1934, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of December 5, 1934, concerning the Clayton Act permits granted on January 8, 1934, to Mr. Franklin W. Fort, Newark, New Jersey, to serve at the same time as director and officer of the Lincoln National Bank of Newark, as director of the Savings Investment and Trust Company of East Orange and as director of the Freehold Trust Company, Freehold, all of New Jersey, and Mr. Michael Loprete, Newark, New Jersey, to serve at the same time as director of the Lincoln National Bank of Newark and the Savings Investment and Trust Company of East Orange, New Jersey.

"In its letter of January 17, 1934, inclosing copies of the permits granted to Messrs. Fort and Loprete, the Board advised you that it would not have approved these applications had it not been for Mr. Dillistin's recommendation, in which it

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"understood that you concurred, and the special circumstances involved, particularly Mr. Fort's participation in the reorganization of the Savings Investment and Trust Company, the efforts he was making to rehabilitate the capital structure of the bank and the desirability of obtaining his continued assistance in that connection. The Board stated that these permits should be considered as of a temporary character and requested you to advise it as soon as the interlocking relationships between the Lincoln National Bank and the Savings Investment and Trust Company might, in your opinion, be terminated without adverse effect upon the interests of the latter institution and the community in which it is located. In any event, you were requested to review these permits not later than November 1, 1934, and at that time to submit your recommendation as to whether or not they should be revoked.

"It is noted from your letter of December 5, 1934, that the rehabilitation of the capital structure of the Savings Investment and Trust Company has not been completed, that the Reconstruction Finance Corporation has approved the proposed program for strengthening this bank, that you are informed the program may be completed by December 31, 1934, and that, in your opinion, the revocation at this time of the Clayton Act permits granted to Messrs. Fort and Loprete might tend to jeopardize or delay the consummation of the rehabilitation program of the Savings Investment and Trust Company.

"You request the Board's views in the matter of deferring your recommendation as to whether these permits should be revoked until such time as the rehabilitation program of the Savings Investment and Trust Company has been completed. In all the circumstances, the deferment of your recommendation on these cases until the consummation of the rehabilitation program of the Savings Investment and Trust Company of East Orange will be agreeable to the Board. However, should there be any undue delay in the completion of such program it is suggested that you keep the Board advised."

Approved.

Letter dated December 13, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to Assistant Federal Reserve Agent Dillistin's letter of October 25, 1934, submitting additional information relative to the application of Mr. Percy L. Hall, Amityville, New York, for permission under the provisions of

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"the Clayton Act to serve at the same time as director of 'First National Bank and Trust Company of Amityville', Amityville, New York, and as director of 'The Bank of Farmingdale', Farmingdale, New York, which was not approved by the Board as indicated in its letter of September 22, 1934, to you, largely because of the unsatisfactory condition of the banks involved and the nature of the use which the applicant had made of their credit facilities.

"In accordance with Section V (g) of Regulation L, additional information has been submitted from which it appears that since the examination as of March 21, 1934, \$5,000 has been paid on the applicant's loan of \$15,600 at the Amityville bank; that the remainder of such loan is said to be fully secured by listed collateral having a market value of \$6,562 and other local securities not readily marketable; that his indirect obligation of \$4,800 at this bank was subsequently paid in full; that the applicant's loan of \$7,200 at the Farmingdale bank is reported to be fully secured by listed collateral having a market value of about \$3,000 and other collateral; that \$1,500 of the applicant's loan at the Farmingdale bank represented an assumption of a third party's obligation on which the applicant was not legally responsible but which he assumed in order to prevent loss to the bank; and that the applicant's financial statement shows a net worth of \$52,000. Although the Amityville and Farmingdale banks, when examined as of March 21, 1934 and June 12, 1934, respectively were in unsatisfactory condition, it appears that the banks' difficulties arose largely through depreciation in securities, that the applicant does not appear to have been unduly responsible for such difficulties, that the banks are reported to be under competent management, and that applications for the sale of preferred stock to the Reconstruction Finance Corporation for additional funds sufficient to place them in satisfactory condition have been finally approved by the Reconstruction Finance Corporation although these funds have not been disbursed.

"In all the circumstances, the Board has approved the application and there are inclosed the original and copies of the permit granted to Mr. Hall covering his services as director of First National Bank and Trust Company of Amityville, Amityville, New York, and as director of The Bank of Farmingdale, Farmingdale, New York, for transmittal by you to the applicant and the banks involved, and a copy for your files.

"The Board requests, however, that you endeavor, in cooperation with the appropriate supervisory authorities, to effect the consummation of the plans now in process for strengthening the condition of the two banks involved."

Approved.

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Letter dated December 13, 1934, approved by five members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. John M. Lyon, Port Chester, New York, to serve at the same time as director of the Greenwich Trust Company, Greenwich, Connecticut, and as director of 'The First National Bank and Trust Company of Port Chester', Port Chester, New York.

"In considering the application of Mr. Lyon, it was noted (Item 12, F.R.B. Form 94a, dated January 6, 1934, submitted by the Port Chester bank) that the stock of that bank and the stock of the Port Chester First National Corporation was held share for share and could not be sold separately, which, if in effect June 16, 1934, or subsequently, apparently constitutes a violation of Section 5139 of the Banking Act of 1933.

"The Board requests that you withhold delivery of the Clayton Act permit to Mr. Lyon and copies thereof to the banks involved, until you have ascertained that definite steps, if necessary, have been taken by the First National Bank and Trust Company and the Port Chester First National Corporation to effect a compliance with the provisions of Section 5139 of the Banking Act of 1933, in which event you are authorized to release the permit to Mr. Lyon and copies to the banks. Please advise the Board of the action taken in this matter and of your disposition of the permit.

"In granting the permit the Board took into consideration the fact that although The First National Bank and Trust Company of Port Chester was in an unsatisfactory condition, it was proposed to strengthen the institution through the sale of \$190,000 Class 'A' preferred stock to the Reconstruction Finance Corporation which approved the purchase on July 30, 1934, on condition that \$110,000 of Class 'B' preferred stock be sold locally. Inasmuch as the Reconstruction Finance Corporation apparently has not yet disbursed the funds for the Class 'A' preferred stock, the Board suggests that you endeavor, in co-operation with the appropriate supervisory authorities, to expedite the completion of the program for recapitalization of this bank.

"The Board requests that, when you submit your recommendation as a result of your annual review of this permit, you report fully as to the progress made in improving the condition of The First National Bank and Trust Company of Port Chester."

Approved.

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Letter dated December 13, 1934, approved by four members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. H. C. Winslow, Meadville, Pennsylvania, to serve at the same time as director of First National Bank of Meadville, Meadville, Pennsylvania, and as director and officer of The Farmers National Bank of Conneautville, Conneautville, Pennsylvania.

"In the consideration of Mr. Winslow's application it was noted that he had borrowed substantial amounts from the above named banks and the Crawford County Trust Company, Meadville, Pennsylvania; that these obligations were largely secured by listed and unlisted securities; that substantial portions of these loans were classified as slow and that in view of such borrowings you had recommended that a limited permit be granted to Mr. Winslow with the statement that it is felt that he should materially reduce his obligations to the banks or pay them in full.

"It was also noted from a recent report of examination of First National Bank of Meadville that, although this institution had satisfactory sound capital and liquidity ratios, it appeared to be in a rather frozen condition largely because of heavy investments in banking house and real estate and a large aggregate of slow loans, in view of which the Comptroller of the Currency had recommended that the bank make application for the sale of \$250,000 preferred stock to the Reconstruction Finance Corporation. No definite commitment for the purchase of this preferred stock appears to have been made as yet. It was further noted that the active management of First National Bank of Meadville was considered weak and that you had stated that the bank was in need of a competent credit officer.

"On the other hand, it appears that although the applicant has made extensive use of the credit facilities of the banks and the history of his loans indicates them to be slow, he is said to be possessed of a substantial net worth (consisting largely of real estate and unlisted securities) and that no element of doubt or loss was indicated with respect to his obligations. It also appears that at the time of the organization of The Farmers National Bank of Conneautville Mr. Winslow was considered to possess the respect of the community and the necessary financial strength to aid materially in the successful organization of that bank and that your office feels that his services have been beneficial to that institution.

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"In all the circumstances the Board has been reluctant to grant the permit but in view of your recommendation and in order to avoid any unnecessary misunderstanding in the communities which might prove detrimental to the best interests of the banks, the Board has granted a permit to Mr. Winslow to continue in effect only to the close of December 31, 1934. When the permit is sent to the applicant it is suggested that you call his attention to the limited status of the permit and advise him that in accordance with Section V(g) of Regulation L, consideration will be given to any additional facts or arguments not appearing in his application and accompanying forms which he feels should be brought to the Board's attention. If additional facts and arguments are submitted by Mr. Winslow, it is suggested that they be accompanied by full information with respect to any subsequent improvement in the condition and management of First National Bank of Meadville and as to the nature and extent of the use which has been made of the credit facilities of the banks by the applicant and a showing that the applicant's service to the banks involved would not be incompatible with the public interest. It is also suggested that you endeavor in cooperation with the appropriate supervisory authorities to bring about a correction of all of the matters with reference to First National Bank of Meadville which have been criticized by the examiner.

"Please keep the Board informed of the action taken in these matters."

Approved.

Letter dated December 13, 1934, approved by five members of the Board, to Mr. J. Wade Bell, Quinwood, West Virginia, reading as follows:

"Under date of October 5, 1934, the Federal Reserve Board addressed a letter to you regarding your service as president and director of the Winona National Bank, Winona, West Virginia, and as director of the Greenbrier Valley Bank, Lewisburg, West Virginia, in apparent violation of section 8A of the Clayton Act.

"The Board stated that it assumed that you would not intentionally continue to serve such institutions in violation of law and requested you to advise the Federal Reserve Agent at the Federal Reserve Bank of Richmond promptly as to the steps you intended to take in order to comply with the provisions of the Clayton Act.

"However, the Board has not been advised that you have taken any steps to bring your relationships into conformity

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"with the provisions of that Act. Accordingly, this letter is being sent to you by registered mail so as to afford you a final opportunity to file an application to serve the banks if you desire to do so. You are advised that, if you so desire, you may file with the Federal Reserve Agent an application for permission to serve the national bank and the other bank which you are serving in apparent violation of the provisions of the Clayton Act. However, unless such an application is filed by the first day of January, 1935, or unless before that date you advise the Board of facts showing that such application is no longer necessary, appropriate steps will be taken as provided by law in such cases to enforce compliance with the statute."

Approved, together with a similar letter, also dated December 13, 1934, and approved by five members of the Board, to Mr. Thomas D. Lee, Elkins, West Virginia, with regard to his service as director of the Tygarts Valley National Bank of Elkins, and as director of the Davis Trust Company, both of Elkins, West Virginia, in apparent violation of section 8A of the Clayton Act.

Letter dated December 13, 1934, approved by four members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Reference is made to the Clayton Act permit granted by the Board on April 17, 1924, to Mr. Charles H. Pfennig, Kenosha, Wisconsin, to serve at the same time as director of 'The Brown National Bank of Kenosha', 'The First National Bank of Kenosha' and The Northwestern Loan and Trust Company, all of Kenosha, Wisconsin, and to Assistant Federal Reserve Agent Young's letter of November 10, 1934, submitting information relative to the present financial condition of Mr. Pfennig, together with his recommendation that the permit now held by Mr. Pfennig be revoked.

"It was noted from the report of examination of The First National Bank of Kenosha as of October 15, 1934, that Mr. Pfennig's loan of \$50,750 was classified as \$20,000 slow, \$10,000 doubtful and \$20,750 loss; and the examiner stated in the confidential section of his report that 'In view of the involved condition of Director Pfennig his withdrawal from the directorate would appear highly advisable.' It was noted from Mr. Young's letter of November 10, 1934, that Mr. Pfennig also was indebted to The First National Bank of Chicago in the amount of \$10,000, collateralized by 325 shares

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"of stock of The First National Bank of Kenosha and that \$7,950 of this loan was classified as slow. Mr. Young also stated that Mr. Pfennig is a real estate operator who has issued a large number of real estate bonds that have gone in default and that he has become more or less involved in an attempt to protect these issues. In the circumstances, the Board feels that the permit issued to Mr. Pfennig on April 17, 1924, should be revoked and you are requested to advise him accordingly.

"In communicating with the applicant, please advise him that, in accordance with Section V(i) of Regulation L, he will be afforded an opportunity to be heard in connection with the revocation of the permit. Please advise the Board promptly as to whether Mr. Pfennig desires to have such a hearing and, if not, as to what steps he proposes to take in order to comply with the provisions of the Clayton Act.

"In the event that he desires a hearing, please inform him that the Board's decision was based largely upon the nature and extent of the use which he has made of the credit facilities of The First National Bank of Kenosha, and upon the involved condition of his financial affairs."

Approved.

Letter dated December 13, 1934, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to the Clayton Act permit granted on November 15, 1927, to Mr. Albert Dollenmayer, 519 Metropolitan Life Building, Minneapolis, Minnesota, to serve at the same time as director of the Marquette National Bank of Minneapolis and the Chicago-Lake State Bank of Minneapolis, Minnesota.

"For your confidential information, the report of examination of the Chicago-Lake State Bank of Minneapolis as of April 15, 1934, made by an examiner for the Federal Deposit Insurance Corporation, indicates that the elimination of estimated losses through charges to the capital accounts would have resulted in a small capital impairment; and reveals that on February 28, 1933, by action of the board of directors, Mr. Dollenmayer's loan of \$2,500 was charged off. The report of examination stated that, according to the minutes of the directors' meeting of that date, the motion to charge off Mr. Dollenmayer's loan was seconded by Mr. Dollenmayer, and that the bank was to receive from Mr. Dollenmayer a deed to a brick dwelling but that there appeared to be no record that the bank

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"had received a deed to the property. In the confidential section of his report, the examiner further indicated that in view of the fact that Mr. Dollemayer's note of \$2,500 had been charged off, it was possible that his bank stock was pledged elsewhere.

"The Board has no further details before it concerning the matter but feels that the facts described above indicate a possible abuse of the credit facilities of the bank on the part of Mr. Dollemayer. Accordingly, it will be appreciated if you will investigate the facts in this matter insofar as it may be possible to do so and ascertain and advise the Board as to the extent of Mr. Dollemayer's responsibility, if any, for the condition of the Chicago-Lake State Bank of Minneapolis and as to whether, in your opinion, he has abused the credit facilities of either the Marquette National Bank of Minneapolis or the Chicago-Lake State Bank of Minneapolis, submitting at the same time your recommendation as to whether consideration should be given to the matter of revoking the permit heretofore issued."

Approved.

Letters dated December 13, 1934, approved by five members of the Board, to applicants for permits under the Clayton Act, advising of approval of their applications as follows:

Mr. A. A. Cunningham, for permission to serve at the same time as a director of The Commercial National Bank of Tiffin, Tiffin, Ohio, and as a director and officer of The Tiffin Savings Bank, Tiffin, Ohio.

Mr. J. J. Fleck, for permission to serve at the same time as a director of The Commercial National Bank of Tiffin, Tiffin, Ohio, and as a director of The Tiffin Savings Bank, Tiffin, Ohio.

Mr. W. H. Kildow, for permission to serve at the same time as a director of The Commercial National Bank of Tiffin, Tiffin, Ohio, and as a director and officer of The Tiffin Savings Bank, Tiffin, Ohio.

Mr. R. D. Sneath, for permission to serve at the same time as a director and officer of The Commercial National Bank of Tiffin, Tiffin, Ohio, and as a director of The Tiffin Savings Bank, Tiffin, Ohio.

Approved.

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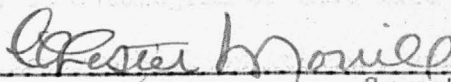
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There was then presented the following application for a change in stock of a Federal reserve bank:

<u>Application for ORIGINAL Stock:</u>	<u>Shares</u>	
<u>District No. 11.</u>		
First National Bank at De Kalb,		
De Kalb, Texas	33	33

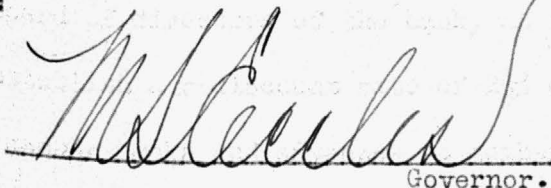
Approved.

Thereupon the meeting adjourned.



Secretary.

Approved:



Governor.