

A meeting of the Federal Reserve Board was held in Washington on Wednesday, December 19, 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 minutes of the meetings of the Federal Reserve Board held on November 19 (two meetings), 20, 22, 23, 24, 27 and 28, and December 4, 5, 6, 7, 8, 10 and 11, 1934, were approved.

The minutes of the meetings of the Federal Reserve Board and the Federal Advisory Council held on November 19 and 20, 1934, were approved.

The minutes of the meetings of the Executive Committee of the Federal Reserve Board held on November 30 and December 1, 1934, were approved, and the actions recorded therein were ratified unanimously.

The Board then acted upon the following matters:

Telegrams dated December 19, 1934, from Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, both advising that, at meetings of the boards of directors today, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated December 15, 1934, from Mr. Wyatt, General

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Counsel, recommending that the Board authorize the purchase, at a cost of \$550.00, of a set of United States Reports, Volumes 1 to 291, inclusive (Official single volume edition) for the use of the legal division. The memorandum stated that on October 27, 1934, the Board authorized the purchase of certain law books, including the set referred to above; that at that time it was understood that such a set was obtainable from a local attorney at a cost of \$350.00; but that that set was sold to another party prior to the mailing of the Board's order on November 13, 1934.

Approved.

Telegram to Mr. Newton, Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"The news of the most untimely death of Governor Black is a great shock to all of the members of the Federal Reserve Board. We all feel that his passing is an irreparable loss not only to the Federal Reserve Bank of Atlanta, the Federal Reserve Board, and the Federal Reserve System, but also to the banks of the nation in whose welfare he was intensely interested. The Board has always relied upon his counsel and advice, and his deep sincerity and unusual capacity of human understanding have endeared him to the Board and all of the members of its staff. The members have expressed individually to Mrs. Black their sympathy in her great loss but it will be appreciated if you will convey to the officers, directors and employees of the Federal Reserve Bank of Atlanta the feeling of bereavement that we all have in their loss of the splendid leadership of Governor Black."

Approved.

Telegram to Mr. Conniff, Deputy Governor of the Federal Reserve Bank of Atlanta, reading as follows:

"Re our telephone conversation this afternoon from which it is understood that bank's executive committee proposes to

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"expend an amount up to \$200 for floral offering for Governor Black's funeral. Board is agreeable to the proposed expenditure for this purpose."

Approved.

Letter to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

"Receipt is acknowledged of, and I shall bring to the attention of the members of the Federal Reserve Board, your letter of December 10, 1934, advising that, at the regular meeting of the board of directors of the Federal Reserve Bank of Minneapolis held on that date, the following actions were taken:

Mr. A. R. McDermott was reappointed as a director of your Helena branch for a term of two years beginning January 1, 1935.

Governor Geery was selected as a member of the Federal Open Market Committee representing the Ninth Federal Reserve District for the year 1935.

Mr. M. O. Grangaard was reelected as a member of the executive committee of your bank for the year 1935.

Mr. Theodore Wold was selected as a member of the Federal Advisory Council representing the Ninth Federal Reserve District for the year 1935.

Governor Geery was reelected as a member of the Board of Trustees of the Retirement System of the Federal Reserve Banks for the year 1935.

"With respect to the action of your directors in reelecting Governor Geery as a member of the Board of Trustees of the Retirement System of the Federal Reserve Banks for the year 1935, your attention is called to section 6 of the rules and regulations of the retirement system which provides that the trustees representing the Federal reserve banks shall be selected for a term of three years. Inasmuch as it is understood that Governor Geery's present term as a trustee will expire on December 31, 1934, it is assumed that your board of directors, at its next regular meeting, will wish to amend its action to provide for the selection, for a term of three years, of a representative of your bank to serve on the Board of Trustees of the Retirement System of the Federal Reserve Banks.

"In this connection, separate letters will be addressed to you concerning the action of your board of directors with regard to the setting up of reserves on the books of your bank as of December 31, 1934, and the proposed operation on a System basis of the Havana agency of the Federal Reserve Bank of Atlanta."

Approved.

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

"Receipt is acknowledged of Mr. Bailey's letter of December 4, 1934, and inclosures, with regard to the matters discussed in the Board's letter to you of September 12, 1934, advising of its approval of the application of the Commercial Trust and Savings Bank, Mitchell, South Dakota, for permission to exercise fiduciary powers.

"It has been noted that your office has been advised that none of the stock of the Commercial Trust and Savings Bank is held by trustees and that it is the opinion of your counsel that no holding company affiliate relationship exists between that bank and The Commercial Company. It has been noted also that an agreement providing for the cancelation of the trust agreement under which the stock of The Commercial Company is held by trustees for the benefit of the shareholders of the bank has been signed by stockholders representing over two-thirds of the stock of The Commercial Company and that, as soon as the signatures of all of the stockholders have been obtained, a copy thereof will be furnished to your office. Upon receipt of this copy, it is requested that you obtain the advice of your counsel that he is satisfied that the agreement in question has accomplished the elimination of the apparent conflict with the provisions of section 9 of the Federal Reserve Act referred to in the Board's letter to you of September 12, 1934, and it will be appreciated if you will forward to the Board for its records a copy of such agreement, together with a copy of the advice given by your counsel with respect thereto.

"It has been observed also that Mr. H. R. Kibbee, President of the Commercial Trust and Savings Bank, has advised that 'We are very desirous of obtaining this consent of the Board before the close of the year' and that Mr. Bailey has stated that your office has assumed that Mr. Kibbee 'is referring to the formal certificate issued by the Board granting trust powers.' Your attention is called to the fact that it is not the Board's practice to issue a formal certificate to a State member bank when it is granted permission to exercise trust powers and, in order to correct what appears to be a misunderstanding on the part of the bank in this connection, it is suggested that, if you have not already done so, you advise the bank to this effect and that it is authorized to exercise the trust powers covered by the Board's letter to you of September 12, 1934, subject to the conditions contained therein."

Approved.

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

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as follows:

"In accordance with your recommendation the Federal Reserve Board approves a reduction in the common capital stock of 'The Richford National Bank', Richford, Vermont, from \$50,000 to \$25,000, pursuant to a plan which provides that the released capital shall be used to eliminate a corresponding amount of the least desirable assets in the bank, all as set forth in your memorandum of December 11, 1934."

Approved.

Letter to Governor Young of the Federal Reserve Bank of Boston,

reading as follows:

"Receipt is acknowledged of your letter of December 12, 1934, with regard to participation by your bank in any advances made by the Federal Reserve Bank of New York to the Bank for International Settlements secured by refined gold bars.

"As in the case of similar advances by the New York bank to the National Bank of Belgium, the Board's action contemplated that participations in advances to the Bank for International Settlements would be offered to the other Federal reserve banks, and, therefore, the action of your directors in the matter has the Board's approval."

Approved.

Letter to Mr. Wood, Chairman of the Federal Reserve Bank of

St. Louis, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of St. Louis made as at the close of business September 8, 1934, copies of which were left with you and Governor Martin.

"The examiner comments in considerable detail (page 16) regarding an item of \$1,176.78, carried in Sundry Items Receivable, representing the balance due on the Reserve Bank's share of the proceeds of the sale of the 1928 and 1929 crops from two farms which were acquired in connection with paper held as collateral to the claim account of the suspended Bank of Waynesville, Waynesville, Missouri. It has been noted that there is some question as to whether the former representative of the Reserve Bank, who acted as agent in the collection of paper held in connection with the above claim, has properly accounted for all funds turned over to him as agent for the sale of crops and that a final accounting

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"thereof has never been made. The Board is pleased to note that the examiner's recommendations will be followed and that the matter will be fully investigated, and that the uncollectible portion of the balance carried in Sundry Items Receivable will be charged off not later than at the close of the current year. It is suggested that consideration also be given to the advisability of having the Secret Service make a thorough investigation of all the circumstances in the case with a view of determining whether or not the matter should be reported to the Department of Justice. It will be appreciated if you will keep the Board advised of any developments in the case and if the matter was reported to the bonding company.

"It has been noted (page 18) that it is the policy of the Reserve Bank when making wire transfers by authority of the Commissioner of the Public Debt to other Federal reserve banks of original allotments on subscriptions to new issues of Government securities, to allow payment against delivery by the other Federal reserve banks. The examiner states that while the Reserve Bank's practice in this respect does not conform to the Treasury Department's Memorandum 218 in that payment is not required before request for transfer is made, the management feels that there should be no change in procedure unless a definite ruling to the contrary is given by the Treasury Department. The Board feels that a reserve bank, in acting as fiscal agent for the Treasury Department, should follow strictly the instructions of the Treasury Department unless specific authorization has been received from the Treasury Department for any departure from the general instructions. It will be appreciated, therefore, if you will submit this question to the Treasury Department and if you will advise the Board as to their ruling in the matter.

"On page 20 the examiner calls attention to several exceptions to capital stock holdings of member banks which appear to have been caused by errors and incorrect computations made in the Federal Reserve Agent's department. It is assumed that steps have been taken to assure that more accurate records of capital stock holdings will be maintained.

"The schedule 'Collateral and Custodies Held' on page 56 shows that the bank is holding securities in safekeeping for the account of the trustees for the St. Louis-San Francisco Railway Company and the trustees for the Missouri Pacific Railroad Company, which securities, the examiner states, were pledged by member banks as security to deposits and were accepted by the Reserve Bank as an accommodation to the member banks. The Board recognizes, as stated in its letter X-7907 of June 6, 1934, that there may be valid and persuasive reasons why the Reserve banks should wish to receive for safekeeping securities pledged by a member bank to secure 'public' deposits but would like to be advised of the circumstances prompting the acceptance for safekeeping of securities pledged to secure deposits of the trustees for the railroad companies referred to above.

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"The examiner comments (page 116) on the fact that while access to custodies held at the Louisville Branch requires the presence of the two employees holding the combinations, who are jointly considered individually responsible for the custodies, one of the employees acts more in the capacity of a 'Recorder' and does not appear to exercise joint responsibility with the custodian. The examiner suggested that consideration be given to the establishment of an effective dual control over custodies held. It has been noted that the management of the Head Office stated that an effective dual control would be set up, and it will be appreciated if you will advise the Board whether such a control has since been established.

"The examiner reports that the bank is carrying in Suspense Account-General an item of \$44,116.86 representing a surplus after setting aside a reserve for ascertainable liabilities of the Liberty Loan Association of St. Louis, which was formed in 1918 for the purpose of financing partial payment subscriptions to Fourth Liberty and Victory Loan bonds and whose affairs were taken over by the Reserve Bank in 1919 and have since been administered by it. It will be appreciated if you will advise the Board as to the plans you may have for the disposition of the surplus in the account and as to the steps which have been taken by the bank to locate the various subscribers who have claims against the association.

"The examiner has called attention to the fact that there are several employees of the bank who have been absent for extended periods of time on account of illness and who, it is understood, are being considered for retirement. It will be appreciated if you will advise the Board of any action which has been or will be taken with respect to such employees and as to the policy of the Reserve Bank in connection with the retirement of employees who have become incapacitated.

"After the report and this letter have received the consideration of the board of directors of the Federal Reserve Bank, the Board would appreciate advice from you as to what action has been taken or will be taken on the matters discussed."

Approved.

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

"This refers to your letter of November 2, 1934, with inclosure, regarding possible violations of the provisions of section 22(g) of the Federal Reserve Act by Mr. H. H. D'Autremont, Vice President and Trust Officer of the Southern Arizona Bank and Trust Company, Tucson, Arizona.

"In view of the circumstances involved, including the relatively small amounts involved and the doubt as to the liability of the Vice President to the bank, it is believed that this is a case which need

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"not be reported to the Attorney General of the United States and, accordingly, it will not be necessary for you to make a report of the matter to the local United States District Attorney."

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Consideration has been given to the request of Mr. Gerald F. Beal for a ruling as to the applicability of section 32 of the Banking Act of 1933 to his service as an officer and director of J. Henry Schroder Trust Company, New York, New York, and as director of Grange Trust, Ltd. It is noted that you and counsel for your bank are of the opinion that that section is not applicable to the relationship in question.

"It appears that Grange Trust, Ltd. is a British investment trust of the general management type. It further appears that the securities in its portfolio as of 1933/34 had been held for the following periods in the following percentages:

Held less than 6 months	9%
Held 6 to 12 months	6%
Held 12 to 18 months	3%
Held 18 to 24 months	3%
Held 24 months and over	<u>79%</u>
	100%

"It further appears that purchases and sales of securities by the company constituted the following percentages of its total assets during the years indicated:

<u>Year</u>	<u>Purchases</u>	<u>Sales</u>
1930/31	14%	9%
1931/32	2%	7%
1932/33	9%	7%
1933/34	16%	7%
Average for 4 years	10.5%	7.6%

"It appears that the company has engaged in certain 'underwriting' transactions, but that these transactions involve the British type of underwriting, which does not, in the case of an investment trust, imply further distribution of the securities to the public. It therefore appears that in these transactions the company is in effect merely purchasing securities for its portfolio.

"On the basis of the information which has been submitted, the Board concurs in your opinion that Grange Trust, Ltd. should not be regarded as 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of

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"section 32.

"The information which has been submitted does not indicate the extent of the activity, if any, of the company in purchasing, selling, or distributing its own shares or other securities. In the event that the company is actively engaged in such transactions, a further question would be raised regarding the applicability of section 32 in this case."

Approved.

Letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of November 28, 1934, relative to the Clayton Act application of Mr. Clark McKay Whittemore, Elizabeth, New Jersey, for permission to serve at the same time as director and officer of Union County Trust Company, Elizabeth, as director of Linden Trust Company, Linden, and as director of The First National Bank of Cranford, Cranford, all of New Jersey, which was not approved by the Board for the reasons set forth in its letter of November 14, 1934, to you.

"It is noted from your letter of November 28, 1934, that Mr. Whittemore requests that he be permitted to continue to serve as director of The First National Bank of Cranford until his term of office expires in January, 1935, at which time some other stockholder of the bank will be elected as his successor. In view of the proximity of the time for the election of directors of such bank, in order to avoid any misunderstanding in the community which might prove detrimental to the best interests of The First National Bank of Cranford, its depositors or the community, and in view of Assistant Federal Reserve Agent Dillistin's original favorable recommendation on Mr. Whittemore's application, the Board has granted Mr. Whittemore a permit to serve the banks involved in his application effective, however, only for the period ending January 3, 1935. There are inclosed the original and copies of the permit for transmittal by you to the applicant and the three banks and a copy for your files.

"When the permit is sent to Mr. Whittemore, please call his attention to the limited status thereof and advise him that it has been granted with the expectation that, as indicated in his letter of November 22, 1934, to you, he will not be reelected as a director of The First National Bank of Cranford.

"In order that the Board's files may be complete, it will be appreciated if you will ascertain and advise the Board definitely, after the next election of directors of The First National Bank of Cranford has taken place, that Mr. Whittemore has not been reelected."

Approved.

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Letter 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 on September 14, 1934, to Mr. George G. Thorp, Chicago, Illinois, to serve at the same time as director of The First National Bank of Chicago, Chicago, Illinois, and The Gary State Bank, Gary, Indiana; and to Assistant Federal Reserve Agent Young's letter of December 4, 1934, submitting the review which your office has made of this permit in accordance with the request contained in the Board's letter of September 14, 1934, transmitting to you a copy of the permit granted to Mr. Thorp.

"It is noted from Mr. Young's letter of December 4, 1934, that The Gary State Bank has made application for the sale to the Reconstruction Finance Corporation of \$200,000 of capital debentures, that the completion of this capital strengthening is expected within the near future, that it is believed that Mr. Thorp is keeping in close contact with the operations and management of The Gary State Bank and that, in the opinion of your office, the permit granted to Mr. Thorp should be allowed to continue in force since the banks involved are not natural competitors and since The Gary State Bank needs the support of the steel industry which the applicant represents.

"In all the circumstances, the Board is willing at this time to allow the permit granted to Mr. Thorp on September 14, 1934, to continue in effect. However, the Board requests that you review this case again not later than July 1, 1935, in the light of current information as to the condition of The Gary State Bank and the character of its management and report fully thereon, submitting at that time your recommendation as to the advisability of giving consideration to the revocation of the permit."

Approved.

Thereupon the meeting adjourned.

Charles Morille
Secretary.

Approved:

W. S. Scudder
Governor.