A meeting of the Federal Reserve Board was held in Washington on Monday, January 14, 1935, at 11:30 a. m.

PRESENT: 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:

Memorandum dated January 11, 1935, from Mr. Wyatt, General Counsel, recommending that Miss Edna M. Blumer, a stenographer in the legal division, be granted leave of absence with pay on account of illness from January 2 to January 10, 1935, inclusive.

Approved.

Memorandum dated January 9, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment of Miss Mavis B. Nergard, as a clerk in the division, with salary at the rate of $120 per month, effective as of the date on which she enters upon the performance of her duties.

Approved.

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

"Your telegram January 10 and subsequent telephone conversation. Board accepts your resignation as Class C director, Chairman and Federal Reserve Agent as of the close of business on January 15, 1935, and wishes you every success in your new position."

Approved.

Letter to Mr. Brown, Deputy Chairman of the Federal Reserve Bank of Kansas City, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of Kansas City, made as at the close of business September 29, 1934, copies of which were left with the Chairman of the Board and with Governor Hamilton.

"The examiner states that while the Reserve Bank appears to have taken every reasonable means from the standpoint of mechanical equipment to provide protection, there is a serious question as to the efficiency of the guard force. The report indicates that the examiner's recommendations that a review be made of the entire guard situation with a view to strengthening this feature of protection and that consideration be given to the advisability of delegating responsibility for the force to an individual experienced in such matters, would receive the attention of the management. The Board would appreciate advice as to the action which has been taken in this matter.

"The examiner has commented (page 16) on the number of relatives employed by the bank and particularly in instances where two members of one family are employed in the same department and where an employee of the Auditing Department has a relative working in a department whose accounts are subject to verification by the bank's auditing staff. It has been noted that the management will give consideration to the examiner's recommendations that no employee be assigned to the Auditing Department who has a relative in any department subject to audit and to the advisability of adopting a policy of not having close relatives work in the same or closely allied departments. The Board will appreciate advice from you as to the conclusions reached as a result of the consideration of these matters and would also like to have an expression of your views as to the advisability in general of employing individuals who are closely related to other employees of the bank.

"Under the schedule Suspense Account - General (page 32) is included an item of $56,822.61 covering payments made in connection with the installation of an air-cooling system throughout the Head Office building and which is to be charged to 'Fixed Machinery and Equipment' account upon completion of the contract. It is understood that the board of directors originally approved the installation of such a system at an estimated cost of $58,000 and later approved an additional expenditure of approximately $10,000 to cover certain unforeseen costs which developed during its installation. While the Board interposes no objection to the expenditure for the air-cooling system in the aggregate amount indicated above, it is requested that in the future contemplated charges of any substantial amount to the following capital accounts, viz., Buildings

"(including vaults) and Fixed Machinery and Equipment, be submitted to the Board for consideration before bids are requested.

"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.

In connection with the above, there was also presented a letter to Mr. McAdams, Assistant Federal Reserve Agent at the Federal Reserve Bank of Kansas City, reading as follows:

"In connection with the examination of the Federal Reserve Bank of Kansas City made by the Board's examiners as of September 29, 1934, you stated to the examiner that you held stock in a member bank in the Tenth Federal Reserve District. The Federal Reserve Board has taken the position in connection with the ownership of stock of banks by certain members of the staff of the Federal reserve agent's department in other Federal reserve banks that such employees should not hold stock or other obligations of banks, their subsidiaries or affiliates.

"Accordingly, if you still hold the stock of the member bank referred to in your statement to the examiner, or if you or any of the other employees in responsible positions in the Federal reserve agent's department of your bank, including employees who make examinations or assist in the examination of banks, are holding obligations of banking institutions, their subsidiaries or affiliates, it is felt that such obligations should be disposed of as soon as it is possible to do so without resulting in undue hardship.

"It will be appreciated if you will advise the Board of the action taken in this connection."

Approved.

Letter to Mr. Charles J. Stahl, Jr., Trust Officer, Northwestern National Bank in Philadelphia, Philadelphia, Pennsylvania, reading as follows:

"Receipt is acknowledged of your letter of December 28, 1934, regarding the exercise of fiduciary powers by your bank. It is understood that, although the Federal Reserve Board on August 13, 1934, granted your bank permission to act in certain

"fiduciary capacities, you have been advised by the Deputy Secretary of Banking for the State of Pennsylvania that a certificate of the Department of Banking of that State authorizing your bank to act in a fiduciary capacity cannot be issued until a decision is reached between the Federal Reserve Board and the Secretary of Banking of the State of Pennsylvania relative to the capital and surplus requirements specified for a corporate fiduciary located in Pennsylvania.

"It appears that the common capital stock of your bank is less than the common capital stock required of State institutions in Pennsylvania with fiduciary powers, and that the surplus of your bank is less than the surplus required for the organization of such State institutions, but that the aggregate amount of the capital and surplus of your bank, including both its common and preferred stock, is at least equal to the aggregate amount of capital stock and surplus required for the organization of State institutions with fiduciary powers.

"Section 11(k) of the Federal Reserve Act, which authorizes the Federal Reserve Board to grant permission to national banks to exercise fiduciary powers, contains among other provisions the following:

> "'In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: Provided, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.'

"You will observe that, under this provision, a national bank having 'a capital and surplus' not less than the capital and surplus required of State institutions exercising fiduciary powers is eligible to receive permission from the Federal Reserve Board to exercise fiduciary powers provided, of course, that it complies with the other requirements of law. The Board feels that under the provisions of section 11(k) quoted above, it may properly grant fiduciary powers to a national bank which has at least the amount of capital stock required for the organization of State institutions with fiduciary powers, together with an aggregate amount of capital stock and surplus equal to the aggregate amount of capital stock and surplus required of such State institutions provided that, in any case, the national bank shall have an adequate amount of surplus, in view of all the

"circumstances involved in the particular case, and that the condition of the bank in other respects shall warrant the granting of the fiduciary powers applied for.

"It has been noted that under the laws of the State of Pennsylvania a prescribed amount of 'common' capital stock is required for the organization of State institutions with fiduciary powers. In this connection, attention is called to the fact that section 303 of the Act of Congress of March 9, 1933 (48 Statutes at Large, 1) provides in part that 'the term "common stock" as used in this title means stock of national banking associations other than preferred stock issued under the provisions of this title. The term "capital" as used in provisions of law relating to the capital of national banking associations shall mean the amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired'. In view of this provision of law applicable to national banks, the Board feels that, in determining whether a national bank is eligible to receive permission to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act, both the common capital stock and the preferred capital stock of the national bank may be included in computing whether or not the bank has the required amount of 'capital'. In this connection, it is the opinion of the Board that the provision of section 11(k) of the Federal Reserve Act heretofore quoted has reference to the amount of capital required and does not have reference to any particular class of capital stock.

"Before acting upon the application of your bank to exercise fiduciary powers, the Board obtained full information with regard to the requirements of the laws of the State of Pennsylvania for the organization of State institutions with fiduciary powers and, in view of the considerations discussed above, reached the conclusion that it might properly grant your bank permission to exercise fiduciary powers; and no further action is required by the Board in order that your bank may exercise the fiduciary powers granted to it.

"In connection with your inquiry with regard to the issuance of a certificate of authority to exercise fiduciary powers by the Department of Banking of Pennsylvania you will be interested in the following views expressed by the Federal Reserve Board in a letter of February 14, 1930, addressed to a national bank located in a State other than the State of Pennsylvania which had received permission to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act, with reference to whether it was required to obtain the permission of State authorities before exercising such powers:

"'Your letter of February 4th addressed to the Comptroller of the Currency with reference to the right of the Bank of , to act as administrator has been referred to the Federal Reserve Board for reply. In 1927, the Federal Reserve Board granted permission to the Bank to act as administrator and in certain other fiduciary capacities.

"'It appears that this national bank has now entered a suit as administrator for a deceased coal miner and that the right of the Bank to appear as administrator in this suit has been attacked on the ground that this national bank has never been granted a permit by the State of to act as administrator. You inquire whether it is necessary for the Bank to obtain permission from the State of to act in this capacity.

"'The right of a national bank to exercise trust powers is derived from the laws of the United States and not from the laws of any particular State. In Section 11(k) of the Federal Reserve Act, Congress has set out at length the circumstances and conditions under which a national bank may exercise trust powers. Congress, however, has not prescribed as one of such conditions that a national bank must obtain the permission of the State in which it is located before it exercises fiduciary powers. Under these circumstances I am clearly of the opinion that it is not necessary for a national bank which desires to exercise trust powers in accordance with the provisions of Section 11(k) of the Federal Reserve Act to obtain the permission of the State in which it is located before it exercises these powers. The basic reasons which lead up to this conclusion together with citations of authorities may be briefly summarized for your information as follows:

"'It is well settled by the decisions of the Supreme Court of the United States that an act of Congress within a field covered by its constitutional power fully appropriates that field and is the supreme law of the land (McCulloch v. Maryland, 4 Wheat. 316; Northern Pacific Railway Company v. North Dakota, 250 U.S. 135; Smith v. Alabama, 124 U.S. 465; and Mondu v. N.Y. N.H. and H. R. C. 223 U.S. 1.) It is also well settled that Congress has complete constitutional power to establish and regulate national banks (McCulloch v. Maryland, supra; Osborne v. Bank, 9 Wheat. 738; Davis v. Elmira Savings Bank, 161 U.S. 275; Farmers Bank v. Dearing, 91 U.S. 29; Easton v. Iowa. 188 U.S. 220; and Van Reed v. Peoples National Bank, 198 U.S. 554). The Supreme Court of the United States, after carefully considering its decisions above cited has further

"'held that the Act of Congress granting trust powers to national banks (section 11(k) of the Federal Reserve Act) is constitutional and cannot be nullified or controlled by State authority (First National Bank v. Fellows, 244 U.S. 416 and Burns National Bank v. Duncan, 265 U.S. 17.)

"'If it is assumed that it is necessary for a national bank to obtain the permission of the State in which it is located before it exercises trust powers pursuant to the provisions of Section 11(k) of the Federal Reserve Act, the State could control or nullify the right of national banks to exercise such powers by refusing to grant its permission or by granting its permission upon such conditions as it saw fit. The Supreme Court of the United States, however, in the two cases last above cited has held that a State has no authority to do this.

"'I wish to call your special attention to the case of Burns National Bank v. Duncan, which is cited above. The Burns National Bank of St. Joseph, Missouri, which had received permission from the Board to exercise trust powers, was appointed executor by a citizen of Missouri and after the death of the testator, the bank applied to the proper probate court for letters testamentary, but was denied appointment on the ground that by the laws of Missouri national banks were not authorized to act as executors. This ruling of the lower court was sustained by the Supreme Court of Missouri, but upon appeal to the Supreme Court of the United States, the State courts were reversed. The Supreme Court of the United States held that the Burns National Bank was entitled to act as executor, regardless of whether it was so authorized to act by the State of Missouri. In so holding, the Supreme Court said:

> " * * * whatever may be the State law, national banks having the permit of the Federal Reserve Board may act as executors if trust companies competing with them have that power"

and

> " * * * the State can not lay hold of its general control of administration to deprive national banks of their power to compete that Congress is authorized to sustain."

"'In view of this decision of the Supreme Court, it is clear that a national bank desiring to exercise trust powers in accordance with the provisions of Section 11(k) of the Federal Reserve Act need not obtain the permission of the State in which it is located before exercising such powers.

"'The right of national banks to exercise trust powers has also been considered by the Supreme Court of the United States and courts of the various States in a number of other cases. In the decisions of these cases, the right of a national bank to exercise trust powers has been discussed by the courts at considerable length and I believe that the following cases would be of particular interest and assistance to you:

First Nat. Bank v. Fellows, 244 U.S. 416;
In Re Stanchfield's Estate (Wis.) 178 N.W. 310;
In Re Mollineaux (N.Y.) 179 N.Y.S. 9;
Hamilton et al. v. State (Conn.) 110 Atl. 54;
Carpenter v. Aquidneck Nat. Bank (R.I.) 125 Atl. 358;
In Re Turner's Estate (Pa.) 120 Atl. 701.'

"The Board does not know of any reason why it should make any change in its views as heretofore expressed and quoted above with reference to the necessity for a national bank to obtain the permission of State authorities before exercising fiduciary powers.

"The views of the Federal Reserve Board set forth herein with respect to the capital and surplus required of national banks applying for permission to exercise trust powers and with respect to the necessity for a national bank to obtain the permission of State authorities before exercising such powers were communicated to the office of the Secretary of Banking of the Commonwealth of Pennsylvania in a letter dated December 6, 1934."

Approved, together with a letter to Mr. Irland McK. Beckman, Deputy Secretary of Banking of Pennsylvania, inclosing a copy of the letter to Mr. Stahl.

Letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of January 4, 1935, recommending approval of a proposed reduction in common capital stock of the 'Chippewa Trust Company', St. Louis, Missouri, from $200,000 to $40,000, pursuant to a plan which provides for the use of the released capital in eliminating the estimated losses, amounting to $154,720.99, shown in the report of examination as of November 14, 1934, and in augmenting the bank's undivided profits account; and provides also for a reduction from 6 per cent to 3 per cent in the dividend rate on the preferred stock held locally.

"The Board has considered the information submitted, as well as the condition of the bank as reflected in the report of examination as of November 14, 1934, and, in accordance with

"your recommendation, approves the reduction in common capital stock with the understanding that none of the released capital will be returned to the stockholders but will be used to eliminate estimated losses (capital deficit) and to augment the bank's undivided profits account as set forth in your letter of January 4, 1935, that the transaction has the approval of the Commissioner of Finance of the State of Missouri, and that your counsel has considered the case and is satisfied as to its legal aspects. In this connection, the Board would like to be furnished with copies of any amendments to the bank's charter which are adopted in connection with the capital adjustment."

Approved.

Letter to Honorable Duncan U. Fletcher, Chairman of the Banking and Currency Committee of the United States Senate, reading as follows:

"This refers to the bill, S. 370, submitted on January 9, 1935, to the Federal Reserve Board for a report by Mr. Sparkman, Acting Clerk of your Committee. This bill would amend section 22(g) of the Federal Reserve Act so as to permit loans made by a member bank to its own executive officers prior to June 16, 1933, the date of the enactment of the Banking Act of 1933, to be renewed or extended for a period of four years from that date rather than for a period of two years from that date as now provided in the law.

"The Federal Reserve Board is of the opinion that section 22(g) should be amended and is in general agreement with the purpose which it is contemplated would be accomplished by the proposed amendment contained in the bill, S. 370. However, in view of a number of administrative difficulties which have been encountered under the present provisions of section 22(g), the Board believes that it would be desirable to make a further revision of that section. Accordingly, there is inclosed a draft of a bill for that purpose which the Federal Reserve Board recommends be enacted into law.

"The principal changes which would be made in the provisions of section 22(g) by the inclosed draft of a bill and the reasons therefor are as follows:

"The inclosed draft of a bill would amend section 22(g) so as to permit loans made by a member bank to its executive officers prior to June 16, 1933, to be renewed or extended for periods expiring not more than five years from that date. The present provisions of the law permit such loans to be renewed or extended not more than two years from that date. At the time of the enactment of the Banking Act of 1933, it appeared that executive officers of member banks should reasonably be

"expected to eliminate their indebtedness to such banks within a period of two years. However, in view of the conditions which have existed in the meantime, it has not been possible in many instances for executive officers to arrange for the retirement of such indebtedness. In the circumstances, and in view of the effect which the enforcement of the present provisions of the law in this respect might have upon the member banks and executive officers involved, the Board believes that an extension for three years of the time in which the retirement by executive officers of such indebtedness may be accomplished is highly desirable. In this connection, you will observe from the inclosed bill that a provision has been added to the effect that in any such case the board of directors of the member bank must have satisfied themselves that the extension is in the best interest of the bank and that the officer indebted has made reasonable effort to reduce his obligation.

"Under the present provisions of section 22(g), an executive officer of a member bank who borrows from any bank other than the member bank of which he is an executive officer is required to make a written report to the chairman of the board of directors of the member bank of which he is an executive officer. In some instances, boards of directors of banks do not have chairmen designated as such and questions have arisen as to whom the report should be made in cases of this kind. In these circumstances, the Board believes that it would be desirable to require that the report of borrowings from other banks be made to the board of directors of the member bank of which the borrower is an executive officer, and a provision to this effect is included in the inclosed draft of a bill.

"Under the present provisions of section 22(g) a loan by a member bank to a partnership in which an executive officer of the member bank is a partner may be considered a loan or extension of credit to such executive officer regardless of the extent of his interest in the partnership. In this connection, it is a hardship, in small communities with but one bank, to prohibit the bank from loaning to a local partnership consisting of a number of members, one or more of whom may be executive officers of the bank. It would be desirable to permit member banks to make loans to partnerships in these circumstances where the transactions do not involve evasions of the provisions of section 22(g), and a provision is contained in the attached draft of a bill which would except from the provisions of section 22(g) loans to a partnership other than where executive officers of the member bank are partners having a majority interest in such partnership.

"When notes and other assets acquired by member banks from persons other than executive officers are classified by the examiners as of doubtful value, the executive officers, who may also be directors of the banks, frequently endorse or guarantee such assets for the protection of the banks. Sometimes, in order to eliminate doubtful assets from the banks, executive officers purchase such assets, giving the banks their own promissory notes, which, in many instances, are well secured or are otherwise good and collectible. Such transactions are for the benefit of the banks rather than the executive officers and are not believed to be within the intent of the statute, although they are prohibited by the language of the statute. The inclosed bill, therefore, would exempt transactions of this character from the prohibitions of the statute.

"It has been observed that in many instances the loans made in violation of section 22(g) are in small amounts, that many of the violations have been made inadvertently through ignorance of the provisions of the law, or, in some cases, through misunderstandings as to the applicability of the terms of the law. In cases where criminal proceedings are instituted by the United States, even though the amount of the loans may have been small or the violations inadvertently made, such criminal proceedings may have a serious effect on the reputations and standing in the community of the bank officers involved.

"Much confusion and difficulty has grown out of the uncertainty as to the meaning of the term 'executive officer' and as to whether or not certain transactions are loans or extensions of credit within the meaning of this section. Many appeals have been made to the Federal Reserve Board by member banks for administrative rulings on questions of this kind; but the Board has felt that it could not safely issue such administrative rulings because of the fact that violations of this section constitute misdemeanors punishable by fine or imprisonment and the determination of whether or not criminal proceedings should be instituted in any given case is a matter within the jurisdiction of the Department of Justice and is usually left to the judgment of the local United States Attorney. Administrative interpretations of the law by the Federal Reserve Board would be of no protection to member banks or their officers, if the Department of Justice or the local United States Attorneys should construe the law differently and prosecute the bank's officials for transactions which the Board believed to be entirely lawful. The Department of Justice, in accordance with its long established practice, has declined to express opinions on such questions and the banks have been without any means of obtaining authoritative rulings.

"It is believed that these difficulties could be eliminated without impairing the effectiveness of this salutary provision of the law if the criminal penalty were repealed and there were substituted a provision making it clear that the Federal Reserve Board could remove offending officers from office under the provisions of section 30 of the Banking Act of 1933 for violations of the provisions of section 22(g) without waiting for repetitions of such offenses.

"As you know, under the provisions of section 30 of the Banking Act of 1933, the Federal Reserve Board is authorized to remove officers or directors of member banks or trust companies who shall have continued to violate any law relating to such banks or trust companies or shall have continued unsafe or unsound practices in conducting the business of such institutions, and a provision is contained in the inclosed draft of a bill to amend section 22(g) which would also authorize the Board to remove executive officers of member banks who violate that section.

"In view of the difficulties which have been experienced, as indicated above, with regard to who is an 'executive officer', and in order that the provisions of section 22(g) may be effectively enforced, the inclosed draft of a bill also contains a provision which would authorize the Board to define the term 'executive officer' and other terms contained in the law and to prescribe such rules and regulations as are necessary to effectuate the provisions of section 22(g) in accordance with its purposes and to prevent evasions of such provisions. A provision of this kind would be of material assistance to the Board in enforcing the provisions of section 22(g)."

Approved.

In connection with the above, there was also presented a letter to the Attorney General of the United States, reading as follows:

"The Federal Reserve Board has received your letter of January 5, 1935, (JBK - WHR) inclosing for the Board's consideration a draft of a proposed amendment to section 22(g) of the Federal Reserve Act which your Department has prepared for submission to Congress at its present session and also inclosing for the Board's information a copy of a circular issued under date of December 20, 1934, to the United States Attorneys for their guidance in dealing with matters reported under that section.

"The Federal Reserve Board shares the view of your Department that it would be desirable to obtain an amendment to section 22(g) which would eliminate some of the difficulties

"now being experienced in defining and applying the term 'executive officer' as used in that section. The Board, however, does not look with favor upon the amendment proposed by your Department, first because it believes that the principle underlying this section of the law is salutary and that it would be unfortunate to amend the law so as to permit executive officers to borrow from their own banks, and secondly because it would impose too great an administrative burden upon the Federal Reserve Board and the Comptroller of the Currency to have executive officers of member banks apply to the Federal Reserve Board or the Comptroller of the Currency for permission whenever they desire to borrow from their own banks.

"It is believed that most of the difficulties inherent in the present law on this subject could be eliminated if the criminal penalty for violations of this section were eliminated and if the Board were given authority in its discretion to remove from office any executive officer of a member bank violating the provisions of this section. It would also be very helpful if the Board were authorized to define by regulation the terms 'executive officer', 'borrow', 'become indebted to' and other terms used in the statute and to promulgate regulations to effectuate the purpose of the statute.

"A draft of an amendment to this purpose has been prepared and submitted to the Chairman of the Banking and Currency Committee of the Senate in connection with a request for a report by the Board on a proposed amendment to section 22(g). A copy of a letter the Board addressed to the Chairman of the Banking and Currency Committee in this connection is inclosed herewith. In these circumstances and on the basis of the views expressed herein it will be appreciated if no further action is taken with regard to the proposed modification of section 22(g) along the lines of the draft of the proposed amendment inclosed in your letter.

"It would be helpful if you would permit the Board to send to the Federal Reserve Agents in confidence copies of your letter of instructions to the United States Attorneys as this would be of much assistance to the Federal Reserve Agents in deciding what cases should be considered violations of section 22(g). You may also consider it advisable to ask the Comptroller of the Currency to send copies of these instructions to all national bank examiners for their confidential information."

Approved.

Letter to Mr. Preston, Deputy Governor of the Federal Reserve Bank of Chicago, reading as follows:

"Your letter of January 7, 1935, inquiring whether the Board desires to have deferred for another year the retirement of Mr. J. J. Mooney, Chief Telegraph Operator in the Washington telegraph office, has been received.

"Mr. Mooney's services are of a high order and entirely satisfactory, and it is felt that the discontinuance of his employment at this time would be a loss to the service. For that reason it is desired that you request the Retirement Committee to continue Mr. Mooney for the year ending March 1, 1936, in accordance with paragraph (1)(a) of section 3 of the Rules and Regulations of the Retirement System."

Approved.

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

"Reference is made to Mr. Young's letter of December 20 regarding the cancelation of Federal Reserve bank stock outstanding in the name of The First National Bank of Odebolt, Iowa, which was placed in voluntary liquidation on June 18, 1934.

"It is noted that the officers of the bank are confident that they can discharge all liabilities to depositors within the next six months, and that Mr. Young recommends that an additional period of six months be granted the bank in which to file an application for cancelation of Federal Reserve bank stock in view of the fact that the bank has always been under excellent management, that it is amply able to pay its depositors in full, and that its record over a period of years has been satisfactory. As indicated in the Board's letter X-3186 of August 18, 1921, it is contemplated that the Federal Reserve bank stock of a member bank in liquidation 'should be surrendered as soon as the accounts between the liquidating bank and the Federal Reserve bank can be reasonably adjusted', and it is believed that the period of six months authorized in the Board's Regulation I, as quoted in part in Mr. Young's letter, is sufficient for the purpose in the present case. Accordingly, it is suggested that the liquidating committee of The First National Bank of Odebolt, Iowa, be requested to file an application for the cancelation of the Federal Reserve bank stock outstanding in the name of that bank."

Approved.

Letter to Mr. Curtiss, Federal Reserve Agent at the Federal

Reserve Bank of Boston, reading as follows:

"Consideration has been given to the application of Louis Curtis under the provisions of section 32 of the Banking Act of 1933 for permission to serve at the same time as director of The Merchants National Bank of Boston, Boston, Massachusetts, and as partner of Brown Brothers Harriman & Co., New York, New York, and Boston, Massachusetts.

"The Board understands that Brown Brothers Harriman & Co. is a partnership engaged in general private banking business, subject to examination and regulation by the Banking Department of the State of New York; that its business includes accepting deposits, issuing commercial letters of credit, and dealing in foreign exchange, and also acting as a broker, purchasing and selling securities for a commission upon the order and for the account of customers; but that it is not engaged in issuing, underwriting or distributing securities nor 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of the provisions of section 32 of the Banking Act of 1933.

"It is understood that prior to June 15, 1934, Brown Brothers Harriman & Co. engaged to some extent in the underwriting and distribution of securities; that shortly before that date a new corporation was incorporated under the laws of the State of New York under the name of Brown Harriman & Co., Incorporated, to carry on that type of business; that certain former partners of Brown Brothers Harriman & Co. retired from that firm to join with certain other individuals as executive officers of the new corporation; and that subsequent to June 15, 1934, Brown Brothers Harriman & Co. has not engaged in the business of issuing, underwriting or distributing securities.

"While it appears that Messrs. W. A. Harriman and E. R. Harriman, partners of the firm of Brown Brothers Harriman & Co., own or control all of the stock of the new corporation, the Board understands that such ownership and control is held by these gentlemen in their individual capacities and is not held for the benefit of the firm of Brown Brothers Harriman & Co. or any of its other members. The Board further understands that none of the partners in the firm are directors or officers of the corporation; that the firm and the corporation have separate offices and separate personnel; that no loans are made by the firm to the corporation or by the corporation to the firm, but that as part of its regular business the firm acts as broker in purchasing and selling securities, for a commission, upon the order and for the account of customers, including the corporation; and that there is no relationship between the firm of Brown Brothers Harriman & Co. and the

"corporation, Brown Harriman & Co., Incorporated.

"In these circumstances and on the basis of the facts submitted, the Board does not believe that the provisions of section 32 of the Banking Act of 1933 are applicable to the service of Mr. Curtis as a partner of the firm of Brown Brothers Harriman & Co. and as a director of The Merchants National Bank of Boston, and you are requested to advise the applicant accordingly."

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 application of W. A. Harriman under the provisions of section 32 of the Banking Act of 1933 for permission to serve at the same time as director of the Guaranty Trust Company of New York, New York, New York, and as partner of Brown Brothers Harriman & Co., New York, New York.

"The Board understands that Brown Brothers Harriman & Co. is a partnership engaged in general private banking business, subject to examination and regulation by the Banking Department of the State of New York; that its business includes accepting deposits, issuing commercial letters of credit, and dealing in foreign exchange, and also acting as a broker, purchasing and selling securities for a commission upon the order and for the account of customers; but that it is not engaged in issuing, underwriting or distributing securities nor 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of the provisions of section 32 of the Banking Act of 1933.

"It is understood that prior to June 15, 1934, Brown Brothers Harriman & Co. engaged to some extent in the underwriting and distribution of securities; that shortly before that date a new corporation was incorporated under the laws of the State of New York under the name of Brown Harriman & Co., Incorporated, to carry on that type of business; that certain former partners of Brown Brothers Harriman & Co. retired from that firm to join with certain other individuals as executive officers of the new corporation; and that subsequent to June 15, 1934, Brown Brothers Harriman & Co. has not engaged in the business of issuing, underwriting or distributing securities.

"While it appears that Messrs. W. A. Harriman and E. R. Harriman, partners of the firm of Brown Brothers Harriman & Co., own or control all of the stock of the new corporation, the Board understands that such ownership and control is held

"by these gentlemen in their individual capacities and is not held for the benefit of the firm of Brown Brothers Harriman & Co. or any of its other members. The Board further understands that none of the partners in the firm are directors or officers of the corporation; that the firm and the corporation have separate offices and separate personnel; that no loans are made by the firm to the corporation or by the corporation to the firm, but that as part of its regular business the firm acts as broker in purchasing and selling securities, for a commission, upon the order and for the account of customers, including the corporation; and that there is no relationship between the firm of Brown Brothers Harriman & Co. and the corporation, Brown Harriman & Co., Incorporated.

"In these circumstances and on the basis of the facts submitted, the Board does not believe that the provisions of section 32 of the Banking Act of 1933 are applicable to the service of Mr. Harriman as a partner of the firm of Brown Brothers Harriman & Co. and as a director of the Guaranty Trust Company of New York, and you are requested to advise the applicant accordingly.

"As stated above, the Board understands that Mr. Harriman does not hold the position of officer or director of Brown Harriman & Co., Incorporated, and the Board does not believe that the mere fact that he is a stockholder makes him an 'officer, director or manager' of the corporation within the meaning of section 32. Moreover, the Board assumes that he does not manage, control or direct the business of the corporation in such a way as to be a 'manager' thereof within the meaning of section 32 and the Board's Regulation R; however, it will be appreciated if you will obtain information regarding this question and forward such information to the Board with the comments of your counsel."

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 applications under the provisions of section 32 of the Banking Act of 1933 of Robert A. Lovett for permission to serve at the same time as trustee of The New York Trust Company and as partner of Brown Brothers Harriman & Co., both of New York, New York, and of Knight Woolley for permission to serve at the same time as director of The Commercial National Bank and Trust Company of New York and as partner of Brown Brothers Harriman & Co., both of New York, New York.

"The Board understands that Brown Brothers Harriman & Co. is a partnership engaged in general private banking

"business, subject to examination and regulation by the Banking Department of the State of New York; that its business includes accepting deposits, issuing commercial letters of credit, and dealing in foreign exchange, and also acting as a broker, purchasing and selling securities for a commission upon the order and for the account of customers; but that it is not engaged in issuing, underwriting or distributing securities nor 'engaged primarily in the business of purchasing, selling, or negotiating securities' within the meaning of the provisions of section 32 of the Banking Act of 1933.

"It is understood that prior to June 15, 1934, Brown Brothers Harriman & Co. engaged to some extent in the underwriting and distribution of securities; that shortly before that date a new corporation was incorporated under the laws of the State of New York under the name of Brown Harriman & Co., Incorporated, to carry on that type of business; that certain former partners of Brown Brothers Harriman & Co. retired from that firm to join with certain other individuals as executive officers of the new corporation; and that subsequent to June 15, 1934, Brown Brothers Harriman & Co. has not engaged in the business of issuing, underwriting or distributing securities.

"While it appears that Messrs. W. A. Harriman and E. R. Harriman, partners of the firm of Brown Brothers Harriman & Co., own or control all of the stock of the new corporation, the Board understands that such ownership and control is held by these gentlemen in their individual capacities and is not held for the benefit of the firm of Brown Brothers Harriman & Co. or any of its other members. The Board further understands that none of the partners in the firm are directors or officers of the corporation; that the firm and the corporation have separate offices and separate personnel; that no loans are made by the firm to the corporation or by the corporation to the firm, but that as part of its regular business the firm acts as broker in purchasing and selling securities, for a commission, upon the order and for the account of customers, including the corporation; and that there is no relationship between the firm of Brown Brothers Harriman & Co. and the corporation, Brown Harriman & Co., Incorporated.

"In these circumstances and on the basis of the facts submitted, the Board does not believe that the provisions of section 32 of the Banking Act of 1933 are applicable to the service of Mr. Lovett as trustee of The New York Trust Company and as partner of Brown Brothers Harriman & Co. and the service of Mr. Woolley as director of The Commercial National Bank and Trust Company of New York and as partner of Brown Brothers Harriman & Co., and you are requested to advise the applicants accordingly."

Approved.

Thereupon the meeting adjourned.

O. Reserve Morrill
Secretary.

Approved:

J. J. Thomas
Vice Governor.