

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, May 8, 1935, at 11:30 a.m.

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

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

The Committee acted upon the following matters:

Telegram dated May 8, 1935, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, stating that the board of directors of the bank, at its meeting today, voted to establish a rediscount rate of 2% on rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13(a) of the Federal Reserve Act, effective the first business day following that on which approved by the Federal Reserve Board.

The rate of 2% established by the board of directors of the Federal Reserve Bank of Richmond was approved, effective May 9, 1935.

Telegram dated May 7, 1935, from Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas, stating that the board of directors of the bank, at its meeting on that date, voted to establish a rediscount rate of 2% on rediscounts of eligible paper for member banks and advances to member banks under the provisions of sections 13 and 13(a) of the Federal Reserve Act, effective the first business day following that on which approved by the Federal Reserve Board. The rate of 2% established by the board of directors

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of the Federal Reserve Bank of Dallas was approved by three members of the Board on May 7, to take effect on May 8, 1935.

Approved.

Memorandum dated May 7, 1935, from Mr. Morrill, stating that in accordance with the authority granted at the meeting of the Board on May 6, 1935, Governor Eccles had employed Mr. Elliott L. Thurston as Special Assistant to the Governor, with salary at the rate of \$10,000 per annum, effective May 9, 1935, subject to his passing the usual physical examination for entrance in the Retirement System of the Federal Reserve Banks.

Noted.

Memorandum dated May 3, 1935, from Mr. Paulger, Chief of the Division of Examinations, recommending approval of leave of absence on account of illness, occasioned by a fractured right wrist, for a period of 26 days, 1½ hours, in addition to the usual 30 days, for Mr. H. J. Newman, Assistant Federal Reserve Examiner.

Approved.

Letter dated May 7, 1935, prepared in accordance with the action taken at the meeting of the Board on May 1, and approved by five members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

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"Under date of April 6, 1935, at the request of Mr. Szymczak, Governor Fleming addressed a letter to Mr. Szymczak inclosing copies of statements made by Mr. K. H. MacKenzie, of your statistical department, and Mr. J. B. Anderson, Assistant Federal Reserve Agent, and an excerpt from the minutes of the meeting of the board of directors of the Federal Reserve Bank of Cleveland held on April 5, 1935, with regard to the action of Mr. MacKenzie in furnishing, with the knowledge of Mr. Anderson, information to the financial editor of the Cleveland Plain Dealer which was not furnished to other news agencies, and concerning which the Associated Press made a complaint.

"As you know, the board of directors of the bank appointed a committee which investigated the matter and, on the basis of its investigation, the committee reprimanded Messrs. Anderson and MacKenzie and advised them that any repetition of conduct of this character would result in their immediate dismissal. A resolution adopted by the board of directors of the bank ratified and approved the action of the committee.

"The Federal Reserve Board has given careful consideration to the matter, and, in view of all the circumstances, although it feels that there is a question whether the services of Messrs. Anderson and MacKenzie should not be terminated, has decided to concur in the action taken by the board of directors of the Cleveland bank and a letter, copy of which is attached, is being addressed today to Mr. Burke, Acting Chairman, advising him accordingly.

"Inasmuch as Messrs. Anderson and MacKenzie are in the Federal Reserve Agent's department of the bank and are answerable to the Federal Reserve Board, the Board desires that its attitude in the matter also be made perfectly clear. It is requested, therefore, that, on behalf of the Board, you administer a further reprimand to Messrs. Anderson and MacKenzie, advising them that the Board considers their conduct subject to the most severe criticism and that a repetition of the offense will not be tolerated.

"Please advise the Board fully for its records as to the action which you take pursuant to this letter."

Approved, together with a letter to Mr. Burke, Acting Chairman of the Cleveland bank, also dated May 7, 1935, and approved by five members of the Board, reading as follows:

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"Reference is made to Governor Fleming's letter to Mr. Szymczak under date of April 6, 1935, with regard to the action of Mr. K. H. MacKenzie of the statistical department of the bank in furnishing, with the knowledge of Mr. J. B. Anderson, Assistant Federal Reserve Agent, information to the financial editor of the Cleveland Plain Dealer which was not furnished to other news agencies, and concerning which the Associated Press made a complaint.

"The Federal Reserve Board has carefully reviewed the information contained in the inclosures submitted with Governor Fleming's letter, and in view of all the circumstances, including the consideration which has been given to the matter by the board of directors of the bank and the action taken as the result of that consideration, has decided to concur in that action.

"However, in view of the fact that Messrs. Anderson and MacKenzie are in the Federal Reserve Agent's department and, therefore, are answerable to the Federal Reserve Board, it is also instructing Mr. Fletcher, Acting Federal Reserve Agent, to reprimand Messrs. Anderson and MacKenzie, on behalf of the Board, and to advise them that a repetition of the offense will not be tolerated. A copy of the letter to Mr. Fletcher is attached."

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

"The Federal Reserve Board has considered the request of 'City Bank Farmers Trust Company', New York, New York, transmitted with your letter of March 26, 1935, for permission under the provisions of condition of membership numbered 25 to retain its interest in the stock of City Bank Farmers Trust Company, Ltd., London, England.

"As you were advised when the application of City Bank Farmers Trust Company for membership in the System was approved, condition of membership numbered 25 was prescribed because of the lack of information at that time before the Board as to the condition of City Bank Farmers Trust Company, Ltd., and the nature of its business. The Board stated, however, that it would be glad to give consideration to a request of City Bank Farmers Trust Company for permission to retain its interest in the stock of City Bank Farmers Trust Company, Ltd., accompanied by detailed information with regard to the

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"condition of such company and the business transacted by it.

"In view of the information submitted by the trust company and your office and in accordance with your recommendation, the Board cancels condition of membership numbered 25. Please advise the bank accordingly."

Approved.

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

"In accordance with your recommendation, the Federal Reserve Board approves the reduction in common capital stock of 'The First-Columbia National Bank', Columbia, Pennsylvania, from \$450,000 to \$225,000, pursuant to a plan which provides that the released capital shall be used to eliminate approximately \$225,000 of undesirable assets, all as set forth in your letter of April 26, 1935.

"It is understood that the plan does not provide for the sale of any common or preferred stock. It is understood, also, that none of the eliminated assets will be returned to the shareholders, but will remain the property of the bank."

Approved.

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization at any time prior to July 1, 1935, to vote the stock which it owns or controls in "The Fifth Northwestern National Bank of Minneapolis", Minneapolis, Minnesota, for the purpose of amending the articles of association of such bank to provide that the board of directors shall consist of not less than five nor more than twenty-five shareholders.

Approved.

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Letter to Mr. Sargent, Assistant Federal Reserve Agent
at the Federal Reserve Bank of San Francisco, reading as follows:

"Receipt is acknowledged of your letter of April 23, 1935, recommending the issuance of a general voting permit to American Company, San Francisco, California, authorizing that corporation to vote the stock which it owns or controls of American Trust Company, San Francisco, California.

"From Mr. Sonne's memorandum, which accompanied your letter, it appears that Pacific Eastern Corporation retains control of American Company and that your bank has no information relative to what steps, if any, are being taken by that corporation and Atlas Corporation to terminate their holding company affiliate relationships with American Trust Company. As you know, Pacific Eastern Corporation and Atlas Corporation filed applications for voting permits and on June 9, 1934, limited voting permits were issued authorizing them to vote stock of American Trust Company for certain purposes at any time prior to August 1, 1934.

"However, these applications were filed with the understanding that upon the expiration of such limited voting permits the applicants would no longer be bound by the agreements contained in the applications and the applications would be treated as withdrawn. As a result, these corporations do not now have applications for voting permits pending before the Board and the Board cannot give consideration to the issuance of voting permits to them until new applications are filed.

"There was no such understanding with reference to the application filed by American Company and, accordingly, its application for a voting permit is still pending before the Board. However, if Atlas Corporation and Pacific Eastern Corporation retain control of American Company and thus have not terminated their holding company affiliate relationships with American Trust Company, the stock of American Trust Company held by American Company cannot be validly voted unless voting permits are secured by all three corporations. Accordingly, the Board will not be in a position to consider the issuance of a general voting permit to American Company until applications are filed by Atlas Corporation and Pacific Eastern Corporation or such corporations cease to be holding company affiliates of American Trust Company.

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"It is suggested that you advise American Company accordingly and ascertain definitely whether the holding company affiliate relationships between Atlas Corporation and Pacific Eastern Corporation and the member bank have been or will be terminated in the near future and, if not, whether these corporations intend to file new applications for voting permits."

Approved.

Letter to Mr. Henry L. Hilken, Cashier of the American National Bank at Indianapolis, Indianapolis, Indiana, reading as follows:

"This refers to your letter of April 13, 1935, regarding the right of your bank to grant a loan on the security of a time certificate of deposit issued by another bank prior to the maturity of such certificate.

"It is the opinion of the Federal Reserve Board that the granting of a loan in good faith by a member bank on the security of a time certificate of deposit issued by another bank prior to the maturity of such certificate would not necessarily come within the prohibition contained in section 19 of the Federal Reserve Act and in the Board's Regulation Q against the payment by member banks of time deposits before their maturity. However, if the bank which issued such certificate should solicit the other bank to make the loan on the certificate with the intent to evade such prohibition and to make available to the depositor in substance the funds evidenced by such certificate, or if the loan should be made pursuant to an arrangement or understanding between the bank issuing the certificate and the bank making the loan, it is the opinion of the Board that such a transaction would constitute an evasion of the spirit and intent of section 19 of the Federal Reserve Act and of the Board's Regulation Q, and that it should be regarded as a violation of the prohibition of the provision of law forbidding the payment of time deposits before maturity.

"You state in your letter that you notice that a bank is not permitted to grant loans secured by an individual's time deposit in its own bank. However, you will note that Regulation Q provides in footnote 7 thereof that the making of a loan to the owner of a time deposit in a member bank by such bank for the purpose of evading the prohibition

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"against the payment of time deposits before maturity will, to the extent of such loan, be deemed to be a payment of such deposit in violation of such prohibition. In the final analysis, the question whether a loan by a member bank to a depositor on the security of a time certificate of deposit comes within the prohibition against the payment of time deposits before maturity depends upon whether the loan is made in good faith or for the purpose of evading the prohibition in question. It is not believed that any general rule can be prescribed to govern all cases, and each case should be determined by a member bank in the exercise of its best judgment and in the light of the provisions of the law and of the Board's regulation. However, if the circumstances with respect to any such transaction are such as to raise a question as to whether it constitutes a violation of the prohibition against the payment of time deposits before maturity, the bank must be prepared to show clearly that the transaction was not in contravention of such prohibition.

"If you should have any further questions with respect to this matter, it is suggested that you communicate with the Federal Reserve Agent at the Federal Reserve Bank of Chicago, furnishing him with all of the facts of the situation concerning which you desire advice.

"For your information, there is inclosed a copy of the Federal Reserve Board's Regulation Q, Series of 1935 which became effective in its amended form February 1, 1935."

Approved.

Telegram dated May 6, 1935, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"Ruling No. 43 interpreting Regulation T. In reply to an inquiry of a business conduct committee of a national securities exchange, the Federal Reserve Board rules that if such a committee has granted a 'creditor', as defined in Regulation T, an extension of time amounting to less than 10 days in which to obtain margin under section 4(e) of Regulation T, such committee may grant a further extension of time if the circumstances of the case warrant such action provided that the aggregate of all extensions so granted in such case does not exceed 10 days. The Board also rules that

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"if, in the case of a cash transaction under section 6 of the regulation, such a committee has granted a 'creditor' an extension of time amounting to less than 35 days, such committee may grant a further extension of time if the circumstances of the case warrant such action provided that the aggregate of all extensions so granted in such case does not exceed 35 days."

Approved.

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

"Reference is made to Mr. Osgood's letter of April 25, 1935, transmitting a letter dated April 22, 1935, from 'The First National Bank of Boston' requesting that paragraph 1 (a) of the agreement to be executed by the 'First of Boston International Corporation' precedent to the Board's granting permission to The First National Bank of Boston to acquire and hold stock in the First of Boston International Corporation be modified so as to permit the Corporation to act as agent for The First National Bank of Boston in making and servicing collateral loans to brokers in New York City and vicinity.

"The Board has given careful consideration to the request of The First National Bank of Boston, and in view of all of the circumstances, including the recommendation of your office, has modified paragraph 1 (a) of the agreement to read as follows:

"1. Domestic Transactions - Deposits - Reserves.

- (a) That the Corporation shall not engage in banking or other transactions or perform incidental banking services for any banking institutions, individuals, firms, corporations or others, including the stockholders of the Corporation, except transactions or services which originate in or are incidental to international or foreign banking, and services in acting as agent, under such restrictions as the Federal Reserve Board may from time to time hereafter prescribe, for The First National Bank of Boston, Boston, Massachusetts, in transmitting advices, receiving borrowers' evidences of indebtedness for the account of the Bank, paying over the Bank's funds loaned to borrowers, and receiving and handling collateral, all in connection with collateral loans

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"made by the Bank to brokers in New York City and vicinity; and except further the making by the Corporation for its own account and in the normal course of its business such loans and investments in the United States as may be permitted by law or by the Federal Reserve Board under such restrictions as it may from time to time hereafter prescribe;-

"The bank has stated that with the discontinuance of all business of the Corporation not originating in or incidental to international or foreign banking, except the acting as agent for The First National Bank of Boston in the making and servicing of collateral loans to brokers in New York City and vicinity, the Corporation will be engaged not only principally, but almost exclusively in international or foreign banking. The modification has been granted with the understanding that the Corporation will continue to be engaged principally in international or foreign banking and that the agency transactions in connection with collateral loans will not assume undue proportions. It will be noted that, under the provisions of paragraph 8 of the agreement, the Board has the right to prescribe such limitations and restrictions upon the operations and conduct of the business of the Corporation as may appear advisable at any time.

"In advising The First National Bank of Boston and the First of Boston International Corporation of the changes in the form of agreement, please advise them of the understanding upon which the Board has granted the modification."

Approved.

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

"Reference is made to the application of Continental Bank & Trust Company, Fort Worth, Texas, for a voting permit authorizing it to vote the stock which it owns or controls of Continental National Bank of Fort Worth, Fort Worth, Texas, and to your letter of April 11, 1935, with reference to the possible termination of the holding company affiliate relationship.

"The Board understands that Continental National Bank of Fort Worth has outstanding 7,500 shares of common stock and 5,000 shares of preferred stock; that Continental Bank and Trust Company owns or controls 3,949 shares of common stock; that all of the preferred stock is owned by the Reconstruction Finance Corporation; that at the 1935 annual

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"meeting 6,254 shares of common stock and all of the shares of preferred stock were voted; that Continental Bank & Trust Company voted the stock which it owns or controls at that meeting; that the proxy for the Reconstruction Finance Corporation was a stockholder of Continental National Bank of Fort Worth but had no other connection with that bank or Continental Bank & Trust Company; and that instructions given to the proxy by the Reconstruction Finance Corporation were in part as follows:

"In voting pursuant to any such proxy, the provisions of the proxy should be strictly observed. You will note that the proxy form contains no specific directions with reference to voting for directors and other routine matters. Generally speaking, it is the desire of the Corporation not to oppose the holders of a majority of the stock in the election of directors; and you should, therefore, ascertain if possible what names are likely to receive the support of such majority, and cast your vote in their favor unless prior to the meeting you are otherwise instructed, or unless in your opinion you deem it inadvisable to vote with such majority. In this latter case you should immediately communicate with this office for further instructions. On matters which are not specifically referred to in the proxy or in this letter you should vote, or refrain from voting, as you deem to the best interest of the Reconstruction Finance Corporation.

* * * *

"The instructions herein contained are subject to modification with respect to the voting of preferred stock of the bank at any time prior to the meeting, and any proxies may be revoked in the same manner. Should either of these contingencies arise you will be immediately advised."

"On the basis of these facts, the Board is of the opinion that Continental Bank & Trust Company is not now a holding company affiliate of Continental National Bank of Fort Worth and, accordingly, it is assumed that no further consideration need be given to the application for a voting permit. However, if there are any further facts which you believe should be called to the Board's attention the Board will be glad to give further consideration to the matter. In the absence of such facts, please advise Continental Bank & Trust Company accordingly. If the Reconstruction Finance Corporation should in the future execute a proxy to Continental Bank & Trust Company or to a person under its control, a further question might arise con-

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"cerning the existence of a holding company affiliate relationship and you will please call this fact to the attention of Continental Bank & Trust Company."

Approved.

Letter dated May 6, 1935, approved by four members of the Board, to Hon. T. J. Coolidge, Acting Secretary of the Treasury, reading as follows:

"Reference is made to the copy of your letter to the Federal Reserve banks under date of April 27 inclosed with your letter to the Board of April 27, 1935, in regard to reports submitted by the Federal Reserve banks to the Secretary of the Treasury at the end of 1934 pursuant to Subsection (e) of Section 13b of the Federal Reserve Act, as amended.

"During 1934 the expenses of the Federal Reserve banks in connection with the making of industrial advances and commitments exceeded by substantial amounts the earnings of the Federal Reserve banks on the advances and commitments actually made. Inasmuch as a portion of these loans were made from funds received from the Secretary of the Treasury and a portion from funds furnished by the Federal Reserve banks, the Federal Reserve banks were instructed by the Board to prorate the excess of expenses over earnings between surplus, Section 13b, which represents payments received from the Secretary of the Treasury under the provisions of that section and surplus, Section 7, which represents the accumulated net earnings of the Federal Reserve banks. This was necessary in order that the books and published statements of the Federal Reserve banks might correctly reflect the actual amounts received from the Secretary of the Treasury under Section 13b plus earnings and less expenses and losses thereon.

"The Board is in accord with your statement that charges to Section 13b surplus should not be construed as in any way reducing the basic figures upon which payments from the Federal Reserve banks to the United States are to be computed. Such charges do, however, reduce the amount of Section 13b surplus from which earnings may be derived for the purpose of making payments to the Secretary of the Treasury under Subsection (e) of Section 13b, as amended."

Approved.

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Letter dated May 7, 1935, approved by five members of the Board, to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In order that the Federal Reserve Board may have an effective check on its records with regard to all directors of the Federal reserve banks and their branches, particularly during the early period of the Federal Reserve System, it will be appreciated if, at your convenience, you will prepare and forward to the Board a list of the individuals who have served as directors of your bank, with a separate list covering each of your branches, if any, showing in each case, (1) the director's name, (2) whether Class A, B, or C, (3) the group of member banks by which elected in the case of Class A and B directors, (4) place of residence, (5) principal business affiliation, (6) nature of business of director or of firm with which he was affiliated, (7) dates of commencement and termination of service as a director, (8) predecessor, (9) successor."

Approved.

Telegram dated May 7, 1935, approved by three members of the Board, to Mr. Vardeman, Managing Director of the Jacksonville Branch of the Federal Reserve Bank of Atlanta, reading as follows:

"Please advise Charles D. Wynne, Vice President of The Atlantic National Bank of Jacksonville as follows: Reference your letter May 3rd, regarding collection of liquor drafts. Enforcement of section 239 of Criminal Code is matter within jurisdiction of Department of Justice. However, in view of Danciger v. Cooley decision it appears that banks are included within words 'or any other person' in statute. It is suggested that you consult your counsel as to what acts are made criminal by the section."

Approved.

Letter to Mr. Hill, Assistant Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

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"Receipt is acknowledged of your letters of May 2, 1935, addressed to Mr. Paulger and Mr. Wingfield forwarding copies of a bill amending the banking laws of the State of Pennsylvania and providing, among other things, that the term 'capital' as used in those laws means the par value of the preferred as well as the common shares issued and outstanding.

"You will recall that, when the State banking authorities of Pennsylvania recently conferred with a member of the Board and members of the Board's staff regarding capital and surplus requirements for banks in Pennsylvania exercising trust powers, it was understood that a further amendment to the laws of that State would probably be obtained with regard to the amount of surplus required, in order to eliminate any inequality between the basis upon which the Board grants national banks in Pennsylvania permission to exercise trust powers and the basis upon which State institutions may exercise such powers. It has been observed that the law, as amended, requires for the organization of a State institution with trust powers a prescribed minimum amount of capital, and a surplus amounting to 50 per cent of the common capital of the institution. Since the term 'capital' includes both preferred and common capital, it would appear that a bank might be organized with all preferred stock and without being required to have any surplus. However, it would be interesting to know whether the State banking authorities contemplate any further amendment with regard to the surplus requirements, and, if so, what progress has been made towards obtaining such a further amendment."

Approved.

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

"This refers to Mr. Swanson's letter of March 1, 1935, inclosing certain documents executed in connection with the issuance by the Bank of Boyceville, Boyceville, Wisconsin, of \$30,000 of Class A capital debentures to the Reconstruction Finance Corporation and \$5,000 of Class B non-interest bearing debentures to local interests.

"It has been noted that, in view of the request in the Board's letter of December 26, 1934, (X-9060a) for 'a copy of the agreement of the bank' in cases where capital notes or de-

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"debentures have been issued, there is some doubt in the mind of your counsel as to what documents the Board desires to receive in such cases and that Mr. Swanson has indicated that it may not be necessary in the future to furnish copies of all the documents furnished in the present case. You are advised that in cases of this kind and in the absence of special circumstances the Board desires to be furnished with only a copy of the debentures issued by the bank, since it is understood that such debentures contain a full statement of the agreement between the bank and the holders of the debentures. If, as in the present case, different types of debentures have been issued, one copy of each type should be furnished. In so far as underlying documents are concerned, as for example those showing the action taken leading up to the issuance of the debentures, it is not necessary, as stated in the Board's letter of December 26, 1934, to forward copies of such documents to the Board. In this connection, however, you will note from that letter that the Board suggested that it may be desirable for your bank to obtain such copies for the benefit of your counsel in passing upon the legal aspects involved but advised that the question as to what underlying documents need be obtained in any particular case is a question which must be determined in view of the circumstances existing and that this determination should be made by the Federal reserve agent and the counsel for the Federal reserve bank in the exercise of a reasonable discretion.

"It has been noted also that the form of Class B debentures issued by the Bank of Boyceville provides that at the option of the bank such debentures 'shall be carried upon the statements of the bank as a liability or be shown in a footnote to such statements.' As you know, the Board in its letter of April 21, 1934 (X-7863) and in a letter to Mr. Howard H. Hansen, Supervisor of Banking of the State of Washington, dated August 15, 1934, a copy of which was forwarded to you, expressed the view that a bank's liability on account of any capital debentures outstanding should be shown as such in the bank's reports and published statements rather than in a footnote thereto, and, if the latter alternative is being pursued by the Bank of Boyceville with respect to its Class B debentures, it is suggested that you advise it of the Board's views in the event that you have not already done so."

Approved.

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Letter dated May 7, 1935, approved by five members of the Board, to Governor Schaller of the Federal Reserve Bank of Chicago, reading as follows:

"Careful consideration has been given to the report of the leased wire committee, dated November 30, 1934, which was approved by the Governors' Conference at the meeting in Washington on February 5, 1935, and in which certain changes are recommended in the operation of the leased wire system.

"The Federal Reserve Board is in agreement with the recommendations of your committee that the Board assume its proportionate share of the expense of the leased wire system; that messenger service, stationery expense, and the cost of operating the branch lines be not included in the determination of the expense of the system; that supper money for operators working overtime and the cost of counting messages and other clerical help assigned exclusively to work on main line business be included in such expense; and that the salaries of operators in the Washington office be paid by the Federal Reserve Board instead of by the Federal Reserve Bank of Chicago.

"With regard to the suggestion that the Federal reserve banks request reimbursement direct from the Government agencies for telegrams sent by the respective banks over the main lines for the account of such agencies, the following considerations appear to make such procedure desirable. Because of its unfamiliarity with the underlying transactions, the Federal Reserve Board has had some difficulty in the past in determining whether or not certain messages were in fact reimbursable. The Federal reserve banks, being conversant with the situation giving rise to a telegram, could immediately determine to what account it should be charged, and the Federal reserve bank, as the originating office, is the logical one to request reimbursement. Furthermore, the Federal reserve banks, as fiscal agents of various Government agencies, regularly submit to such agencies vouchers covering expenses incurred for their account, and it is believed that the cost of sending reimbursable messages could readily be included in such vouchers, particularly by the Federal reserve banks which have branch lines and which include in their vouchers the cost of reimbursable messages sent over such lines. Such a procedure would effect a uniformity in the method of seeking payment for all reimbursable

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"messages sent by the Federal reserve banks, whether transmitted over the main lines or the branch lines of the leased wire system. Also, if the present method is continued, it will be necessary for the Board, in order to make certain that proper payment is being obtained for reimbursable messages sent by one Federal reserve bank to another (as distinguished from messages sent to Washington), to request the banks to furnish it with copies of all such messages, and it may be necessary later to request copies of all reimbursable messages sent by the banks. As stated in Mr. Carpenter's letter of September 11, 1934, it is felt that a considerable simplification of the leased wire accounting would result from the adoption of the procedure suggested in that letter.

"Careful consideration has also been given to the recommendation that the leased wire system be changed gradually from a Morse to a teletype system and it is felt that before anything is done in this direction a determination should be made by the leased wire committee, from the standpoint of the system as a whole, as to the type of machines that should be used. Because of the fact that copies of telegrams cannot be made on the tape machine, such machines would not be practicable in the Washington office, and, it is understood, would not be satisfactory at the Federal Reserve Bank of New York because of the necessity of making copies there. Furthermore, there is a question whether the telegrams received on the tape machines are satisfactory from a permanent record standpoint, because of the tape becoming detached or eaten off by vermin over a period of time. Inasmuch as there is only a small difference between the rental charge of the tape machine and the page printer, it is felt that your committee should determine whether the advantages of the latter do not outweigh the increased cost.

"The adoption of a teletype system involves the question what action should be taken with respect to the future services of the present Morse operators, many of whom have been in the service a long time. They might be trained as teletype operators, in which case their specialized experience in handling the matter transmitted over the Federal reserve wires, as well as their technical training as telegraph operators, would be of special value which no doubt it would take some time for newly employed teletype operators to acquire, and, at the same time the question whether they should be continued at their present or lower salaries would arise in view of the fact that teletype operators as such

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"are paid substantially lower salaries than Morse operators. If the present Morse operators were retained, however, it is assumed that it would be the policy to replace them with teletype operators at lower salaries as rapidly as separations from other causes occur. In view of all the circumstances, it is suggested that your committee give special consideration to this situation in each Federal reserve bank and submit a recommendation as to the policy which should be followed with regard to this personnel problem in the event of the installation of teletype machines.

"It will be appreciated if your committee will review the three matters referred to above, and, upon receipt of your conclusions with regard thereto, the Board will consider the matter further and advise the Federal reserve banks of the changes to be made in the operation of the leased wire system."

Approved.

Letter 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. Charles J. Hardy, New York, New York, to serve at the same time as a director of Federation Bank and Trust Company, New York, New York, and as a director of The Hampton Bays National Bank, Hampton Bays, New York, for transmittal by you to Mr. Hardy and the two banks and a copy for your files.

"It is noted that you are now investigating the possible applicability of Section 32 of the Banking Act of 1933 to the applicant's services with numerous corporations. You are requested to withhold delivery of the inclosed permit and copies thereof until you are fully satisfied that the provisions of Section 32 are not applicable to such services, in which event you are authorized to release the permit to the applicant and forward copies thereof to the banks involved. Please advise the Board of your action in the matter.

"When the permit and copies thereof are forwarded to Mr. Hardy and the banks involved please advise them that the permit has been issued so as to expire at the close of January 14, 1936, as there is now pending before the Congress proposed legislation for the purpose of clarifying and otherwise amending

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"the provisions of the Clayton Act relating to interlocking bank directorates."

Approved.

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

"Consideration has been given to your letter of April 16, 1935 and inclosures relating to the application of Mr. Knight Woolley under the provisions of the Clayton Act for permission to be at the same time a partner of Brown Brothers Harriman & Co. and a director of The Commercial National Bank and Trust Company of New York, both of New York, New York. In its letter of January 31, 1935 the Board stated that, on the basis of the information before it, it felt that the issuance of the permit applied for would be incompatible with the public interest.

"The information submitted with your letter indicates that there are substantial differences in the character of the principal activities of the organizations involved; and, on the basis of the additional information, you state that you are of the opinion that, 'while there may be some competition between these organizations, nevertheless they are in their general activity of such distinct type that the competition existing is not sufficiently important, relative to the entire scope of their respective activities, to make the granting of this permit incompatible with the public interest'; and you therefore recommend that the Board reconsider its action in connection with this application.

"However, as stated in its letter of January 31, 1935, the Board believes that it was the purpose of section 8 of the Clayton Act to prevent interlocking relationships between institutions engaged in the same class or classes of business and so located as to be in a position to compete substantially. Therefore, the Board's view that the two institutions are in competition within the intendment of the Clayton Act is not predicated upon the relative volume of the various types of business transacted by the two institutions but rather upon the fact that both institutions appear to transact business of the same kinds and that they are therefore apparently in a competitive position with respect to such types of business.

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"The information submitted with your letter shows clearly that both institutions transact business of the same kinds, even though the relative importance of various types of business is not the same in the two institutions. For example, it appears that loans of the national bank, not including open-market paper or acceptances, total 38.62 per cent of total assets, while loans of the private banking firm total only 20.47 per cent of total assets. In this connection, Mr. Woolley states that the national bank 'does a substantial business in commercial loans and discounts, while in the private banking firm 'this business is of secondary importance'. The private banking firm has deposits of foreign banks amounting to 23.5 per cent of its total demand deposits, whereas in the case of the national bank, this percentage is only 2.73.

"The information submitted therefore indicates that the two institutions are engaged in business of the same kinds and that consequently they are in competition for those kinds of business within the intendment of the Clayton Act. Accordingly, the Board does not believe that it may issue a permit in this case consistently with what it believes to be the intendment of the Clayton Act and consistently with the policy adopted by the Board in connection with cases of this kind."

Approved.

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

"Reference is made to your letter of April 23, 1935, submitting a review which you have made of the Clayton Act permits granted July 31, 1934, to Messrs. Ray W. Armstrong, Gordon R. Campbell, William Johnson, Charles L. Lawton, Richard E. Odgers, and Joseph Ruppe to serve as directors and/or officers of The Superior National Bank of Hancock and The Superior Trust Company, both of Hancock, Michigan. The permit granted to Mr. Armstrong also covered his service as director of The First National Bank of Lake Linden, Lake Linden, Michigan; Mr. Campbell's permit also included his service as director and officer of Merchants and Miners Bank, Calumet, Michigan; and the permit issued to Mr. Odgers also covered his service as director and officer of The First National Bank at Hubbell, Hubbell, Michigan.

"The Board has noted the information submitted with your letter of April 23, 1935, pursuant to the request contained in

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"its letter of July 31, 1934, that you report fully as to the progress made in bringing about an improvement in the loan and investment policies of the banks involved; particularly has it noted the fact that you believe that The Superior National Bank of Hancock continues to make loans secured by stock or bond collateral in a manner not in keeping with sound loan policies; that Mr. Odgers, as executive officer of this institution appears subject to criticism for this condition; and that Acting District Chief National Bank Examiner Huck has advised you that if the bank does not correct its loan policy within a reasonable length of time it will be placed on a special list for frequent reports of condition.

"However, in view of the policy set forth in the Board's letter of January 9, 1935, (X-9082), the fact that there are now pending before the Congress proposed amendments to the Clayton Act relating to interlocking bank directorates, and in accordance with the recommendation contained in your letter, the Board is willing to allow the permits heretofore granted to these individuals to continue in effect."

Approved.

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

"You are requested to advise Mr. Asbery A. Callaghan that his application under the provisions of the Clayton Act for a permit to serve as a partner of Panhandle Bank and as a director of The First National Bank of Panhandle, both of Panhandle, Texas, is receiving consideration and that he will be advised in due course of the action taken.

"For your own information, in considering this application it was noted that Mr. Callaghan was also serving as an officer of the Panhandle National Farm Loan Association, and it appears that this association may be a 'bank * * * organized or operating under the laws of the United States' within the meaning of the Clayton Act, with the result that that Act would be applicable to Mr. Callaghan's services to that association and to the banks named above, provided such banks make loans secured by stock or bond collateral. However, in view of the fact that his service to that association while serving such banks might be excepted from the provisions of the Clayton Act if the proposed amendments to that Act which are now pending

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"in Congress are enacted, the Board has decided not to take further action in connection with this application until it can be definitely ascertained whether the proposed amendments will be enacted at this session."

Approved.

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

"In considering the application of Mr. F. F. Florence, Dallas, Texas, for permission under the provisions of the Clayton Act to serve at the same time as director and officer of Republic National Bank and Trust Company of Dallas and as director of The First National Bank of Waco and Liberty State Bank, Dallas, all of Texas, it was noted that Mr. Florence is also serving as director and officer of the Dallas Joint Stock Land Bank.

"A joint stock land bank is a 'bank * * * organized or operating under the laws of the United States' within the meaning of the Clayton Act, and since the three commercial banks covered by Mr. Florence's application are said to make loans secured by stock or bond collateral, it appears that the Clayton Act would be applicable to his services to these four institutions. Therefore, it appears that it would be necessary for Mr. Florence to sever his connection with one of the four institutions, since the Board is without authority to issue a permit to serve more than three banks. However, in view of the fact that there is pending in the proposed Banking Act of 1935 an amendment to the Clayton Act under which some or all of the relationships involved might be excepted, the Board has decided not to take further action in connection with this matter until it can be definitely ascertained whether the proposed amendment will be enacted at this session.

"The above advice regarding the Board's action and its reasons therefor is given to you merely for your own information. However, if you deem it advisable, you may inform the applicant that his application is receiving consideration and that he will be informed in due course of the action taken."

Approved.

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Letters to applicants for Clayton Act permits advising respectively of the issuance of permits by the Board as follows:

Mr. J. F. Harper, to serve at the same time as a director of The Coraopolis National Bank, Coraopolis, Pennsylvania, and as a director and officer of the Coraopolis Trust Company, Coraopolis, Pennsylvania, for the period ending January 14, 1936.

Mr. A. Z. Litz, to serve at the same time as a director and officer of The Farmers Bank of Clinch Valley, Tazewell, Virginia, and as a director of The First Huntington National Bank, Huntington, West Virginia, for the period ending January 14, 1936.

Mr. H. C. Duncan, to serve at the same time as a director of The First National Bank of Leesburg, Leesburg, Florida, and as a director and officer of the Bank of Tavares, Tavares, Florida, for the period ending January 14, 1936.

Mr. Wm. M. Taliaferro, to serve at the same time as a director of The First National Bank of Tampa, Tampa, Florida, and as a director and officer of The First National Bank of Bradenton, Bradenton, Florida, for the period ending January 14, 1936.

Mr. J. E. Southwood, to serve at the same time as a partner of the Panhandle Bank, Panhandle, Texas, and as a director of The First National Bank of Panhandle, Panhandle, Texas, for the period ending January 14, 1936.

Mr. J. F. Weatherly, to serve at the same time as a partner of the Panhandle Bank, Panhandle, Texas, and as a director of The First National Bank of Panhandle, Panhandle, Texas, for the period ending January 14, 1936.

Approved.

Thereupon the meeting adjourned.

Orestes Mowley
Secretary.

Approved:

[Signature]
Governor.