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

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. Miller
Mr. Szymczak
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary

There was presented a memorandum dated May 8, 1935, from Mr. Szymczak, stating that several months ago the Industrial Advisory Committee chairmen had requested that a full statement of what had been done under section 13b of the Federal Reserve Act be made public through trade journals and other weekly and monthly publications; that he had requested Mr. Daiger to assist in the preparation of such articles, but that Mr. Daiger had been extremely busy and had not been able to devote any time to the work; and that he (Mr. Szymczak) desired to recommend the temporary appointment for a period of three months beginning May 11, 1935, of Mr. B. P. Adams, with salary at the rate of $500 per month, for the purpose of preparing the articles referred to above. Mr. Szymczak said that it was contemplated that office space would be arranged for Mr. Adams at the Federal Reserve Bank of New York and that he would work at the Federal reserve bank rather than in Washington. The memorandum had been circulated and initialed by four members of the Board and a note had been attached which stated that Mr. Miller was opposed to the procedure of obtaining approval of
5/11/35

the appointment of employees purely on the basis of initials through
the circulation of memoranda and that he was opposed also to setting
up a publicity and public relations organization as a part of the
Board's staff.

Mr. Szymczak's recommendation was approved,
with the understanding that Mr. Adams would work
under the direction of Mr. Thurston, Special As-
Assistant to the Governor. Mr. Miller voted "no".

The Board acted upon the following matters:

Telegram dated May 10, 1935, from Mr. Strater, Secretary of
the Federal Reserve Bank of Cleveland, stating that the board of di-
rectors of that bank, at its meeting on that date, voted to establish
a rediscount rate of 1 1/2% 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; and
3 1/2% per annum on advances to individuals, partnerships or corpo-
tions secured by direct obligations of the United States under section
13 of the Federal Reserve Act, as amended, effective May 11, 1935. The
rates of 1 1/2% and 3 1/2% established by the board of directors of
the Federal Reserve Bank of Cleveland were approved by three members
of the Board on May 10, to take effect on May 11, 1935.

Approved.

Telegram dated May 9, 1935, from Mr. McAdams, Secretary of
the Federal Reserve Bank of Kansas City, 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; and
3 1/2% per annum on advances to individuals, partnerships or corpora-
tions secured by direct obligations of the United States under section
13 of the Federal Reserve Act, as amended, effective May 10, 1935.
The rates of 2% and 3 1/2% established by the board of directors of
the Federal Reserve Bank of Kansas City were approved by two members
of the Board on May 9, to take effect on May 10, 1935.

Approved.

Memorandum dated May 6, 1935, from Mr. Smead, Chief of the
Division of Bank Operations, recommending that the appointment of Mrs.
Ruth D. Jacquot, who was employed on a temporary basis as a comptometer
operator in the division for a period of three months beginning Febru-
ary 12, 1935, be extended for a further period of three months from
May 12, 1935. The recommendation was approved by three members of
the Board on May 10, 1935.

Approved.

Memorandum dated May 6, 1935, from Mr. Carpenter, Assistant
Secretary, recommending an extension of the leave of absence with
Pay on account of illness granted to Mr. E. F. Anderson, a telegraph
operator in the Washington telegraph office, from May 7 through May
25, 1935, or for such shorter period as may be necessary for his recovery.

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, reading as follows:

"The Federal Reserve Board has received your letter of May 6, 1935, and approves the appointment of Mr. William L. Manning, President and Manager of the Rosemary Manufacturing Company, Roanoke Rapids, North Carolina, as the fifth member of the Industrial Advisory Committee for the Fifth Federal Reserve District for the unexpired portion of the term ending February 28, 1936."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to the board of directors of the "Zeeland State Bank", Zeeland, Michigan, stating that, subject to the conditions prescribed in the letter, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago.

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"Receipt is acknowledged of your supplemental memorandum of April 26, 1935, relative to a proposed reduction in capital of the 'Glen Rock National Bank', Glen Rock, New Jersey, in which you advise that the bank now desires to abandon the plan of capital reduction heretofore approved by the Board, and instead desires to increase its capital by the issuance and sale
of $20,000 of new common stock, to be sold at a premium of $10,000, and to then reduce its common capital stock from $120,000 to $50,000, the released capital to be used to eliminate substandard assets.

"The records of the Board indicate that the Glen Rock National Bank, on March 7, 1929, was authorized to exercise trust powers, although apparently it has never availed itself of this authority, and it is noted that the proposed reduction will result in a capital which is $50,000 less than that required by the laws of the State of New Jersey of State banks and trust companies exercising trust powers.

"The Board, therefore, approves the proposed reduction in common capital of the Glen Rock National Bank as set forth in your supplemental memorandum of April 26, 1935, in accordance with your recommendation, effective only if and when the institution has signified its desire to surrender its right to exercise trust powers in the manner outlined in the Board's Regulation F, section XIV, and has received a certificate from the Board terminating its right to exercise such trust powers.

"It is suggested that you communicate with the bank to ascertain whether its board of directors will adopt a resolution signifying the desire of the bank to surrender its right to exercise trust powers. A copy of such resolution should be transmitted to the Board through the Federal Reserve Agent at New York. It is further suggested, in view of the expressed desire to accomplish the capital reduction as promptly as possible, that your office develop the usual information required by the Board in such cases and advise whether the institution has been discharged or otherwise properly relieved of any duties it may have assumed as a fiduciary. A copy of the Board's Regulation F is enclosed herewith for transmission to the bank for its information.

"This approval supersedes the Board's approval of January 17, 1935 of a previous plan of capital reduction of the Glen Rock National Bank."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Receipt is acknowledged of your letter of April 17, 1935, and enclosures, relative to the request of the Union Trust
"Company of Maryland", Baltimore, Maryland, for permission to retire its capital notes outstanding in the amount of $500,000.

The Board has given consideration to the bank's application, and, in view of the data contained in the file submitted by you and in the latest report of examination of the bank, and in accordance with the recommendations of your executive committee and of the Bank Commissioner of the State of Maryland, approves the retirement of the outstanding capital notes of the Union Trust Company of Maryland, Baltimore, Maryland, in the amount of $500,000. Please advise the trust company and the Bank Commissioner of the State of Maryland of the Board's action in the matter."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Knoko, Assistant Deputy Governor of the Federal Reserve Bank of New York, reading as follows:

"Receipt is acknowledged of your letter of April 24, 1935, with inclosures, from which it is noted that you have received the following payments on the first syndicate credit to the Hungarian National Bank, the dollar proceeds of which, in accordance with the procedure followed in connection with the three previous gold payments, have been credited to the principal of the credit as follows:

<table>
<thead>
<tr>
<th>Gold Payment due on April 18, 1935</th>
<th>Gold value at former parity</th>
<th>Dollar Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipatory Payment of remaining gold payments due on October 18, 1935 and April 18, 1936</td>
<td>$118,653.97</td>
<td>$199,762.35</td>
</tr>
<tr>
<td>Total</td>
<td>$355,961.91</td>
<td>$599,288.53</td>
</tr>
</tbody>
</table>

"It is understood that the anticipatory payment referred to above was made on the basis of an agreement that an allowance at the discount rate of your bank would be applied to the reduction of the principal of the credit, and that in accordance with this arrangement you have credited $2,669.71 to the principal of the credit representing an allowance at the rate of ½ per cent per annum on the gold payment in the amount of $237,307.34.

"It is also noted that you received interest on the second syndicate credit in the amount of $11,458.18, calculated at the gold parity of the dollar on December 17, 1931, the dollar proceeds of which amounted to $19,400.13, and that $11,458.18 of the
"latter amount has been credited as a payment of interest earned and the balance of $7,941.95 as a partial repayment of the principal of the second syndicate credit.

"The letter dated March 29, 1935, from the National Bank of Hungary to the Bank for International Settlements, written in response to an inquiry as to what extent the national bank had found it possible to formulate a plan under which the capital repayments provided in Article 4 of the contract letter of November 6, 1933, could be paid, stated that should the bank's situation permit it to do so, it would be one of its chief endeavors to resume capital repayment, but that this depends on such an improvement in the foreign exchange position as would relieve the bank of anxiety as to providing for the essential raw material and other needs of the country, and that so long as world trade and exchange conditions remain unchanged, the drawing up of any practicable plan to this end is not possible.

"It is assumed that you will keep in touch with the Bank for International Settlements in regard to the development of any plan for further repayments and that you will keep the Board advised of any information received."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, reading as follows:

"Receipt is acknowledged of your letter of May 8, 1935, in which you submit the request of the Federal Advisory Council that the Federal Reserve Board authorize the release of the report of the Council dated April 1, 1935, on the proposed Banking Act of 1935.

"The Federal Reserve Board has no objection to the release of the report in accordance with the request in your letter. The Board does not expect to distribute the report except in response to specific requests and, in order that copies may be available for that purpose, it will be appreciated if you will forward twenty-five copies to this office."

Approved.

Letter dated May 6, 1935, approved by three members of the Board, to Mr. Peyton R. Evans, General Solicitor of the Farm Credit Administration, in regard to the case of H. B. Macklin v. Federal Intermediate Credit Bank of Columbia, reading as follows:
"This will acknowledge your letter of May 4, 1935, in which you state that the Federal Intermediate Credit Bank of Columbia will reimburse the Federal Reserve Board for the amount of salary paid C. E. Cagle, Assistant Chief of the Board's Division of Examinations during the time that his presence is required in Columbia as a witness in the above styled case. Upon Mr. Cagle's return to his duties in Washington the Board will render a statement for his services on this basis.

"Mr. Cagle will report in Columbia by May 7, 1935."  

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your telegram of November 15, 1934 and your two letters of November 30, 1934, which relate to the practice of banks in absorbing for favored customers 'extra out-of-pocket expenses' arising from the special printing of checks. You state that it is the regular practice of banks to supply all depositors with a standard form of check without cost and that depositors are also provided without expense with sheets of check paper, either printed according to the standard form of the supplying bank or unprinted. Your letter goes on to state that there are other costs incurred for customers, such as the expense of 'over-printing' the bank's standard form of check or of supplying special paper, which are absorbed by the banks for some of their customers and not for others and that it is impossible to set forth the circumstances which determine whether or not a bank will absorb such expenses for a particular depositor although it is undeniable that the value of a depositor's account or of his patronage is taken into consideration by the bank. You request a ruling of the Board as to whether a member bank may, without violating the provisions of section 19 of the Federal Reserve Act which prohibit the payment of interest on deposits payable on demand, absorb for certain depositors and not for others the out-of-pocket expense incurred in the special printing of checks.

"As you know, the Federal Reserve Board has heretofore issued certain rulings relating to the absorption of exchange and collection charges by member banks and these for convenience may be summarized as follows:
"(1) The absorption of exchange or collection charges in amounts which vary with or bear a substantially direct relation to the amount of a depositor’s balance amounts to an indirect payment of interest in violation of section 19 of the Federal Reserve Act, if the deposit is payable on demand.

"(2) The absorption or payment of such charges in amounts which do not vary with or bear a substantially direct relation to the amount of the depositor’s balance is not prohibited by law.

"(3) If exchange charges and other actual out-of-pocket expenses are included in an analysis of an account which also includes a credit allowed the customer for interest or for the reasonable value of the account to the bank, interest is paid to the extent that such credit offsets out-of-pocket expenses absorbed by the bank; and any such payment with respect to a deposit payable on demand is in violation of law.

"(4) If exchange charges and other out-of-pocket expenses are omitted entirely from an analysis of an account, credit for the earning value of the account to the bank may lawfully be included in such analysis, provided no payment is made to the customer with respect to such account and the analysis is used solely for the purpose of determining whether the bank itself is properly compensated for the services which it renders to the customer and/or what service charges, if any, must be assessed against the customer.

"(5) The Board has also ruled that it sees no objection to the adoption of a clearing-house rule substantially in accordace with a rule which was submitted for the Board’s consideration and which reads as follows: 'No bank shall make a regular practice of absorbing for any customer all exchange or collection charges or other out-of-pocket expenses incurred on behalf of such customer; but, in exceptional circumstances, when it would create friction or misunderstanding to charge a customer for isolated items of trivial amounts, the banks may absorb such individual items, including isolated exchange and collection charges and charges for telephone calls, telegrams, and similar items, provided that the banks act in good faith and do not utilize the absorption of such items as a basis for soliciting accounts or attempting to obtain an advantage over competitors.'

"Although the rulings summarized above relate specifically to the absorption of exchange and collection charges, the principles set forth are applicable also to the absorption of other charges and expenses such as the special printing of checks for customers and, accordingly, it is believed that the answer to your inquiry may be determined by the application of the principles which have already been enunciated by the Board to the situations
"in question. It is the Board's view that the expense of specially printing checks for specific customers and other similar expenses specially incurred for specific customers are to be regarded as out-of-pocket expenses within the meaning of the rulings above referred to but it is not believed that the furnishing to customers of a standard form of check which involves no special printing for specific customers is to be regarded as such an out-of-pocket expense. Each case, of course, will be governed by its own particular facts, but as a general rule and subject to the qualification set forth in the last paragraph of the above summary, the absorption by a bank of the out-of-pocket expense of printing checks in a special manner for a specific customer will be in violation of section 19 of the Federal Reserve Act if the amount of charges so absorbed varies with or bears a substantially direct relation to the amount of the depositor's balance in an account payable on demand, or if such expense is included in an analysis of the depositor's account and is there offset by a credit allowed the customer for interest or for the reasonable value of the account to the bank.

"Your letters also raise certain related questions which are not dealt with in the foregoing discussion. You indicate that if a bank furnishes a depositor with unprinted paper in order that the depositor may print his own checks, it is customary for the bank to reimburse the depositor for the amount of printing cost which would have been incurred by the bank in printing such checks in the standard form which it furnishes without charge to all of its depositors. It is assumed that the paper so furnished to the depositor is of a grade not more expensive than the paper used by the bank for its standard form of checks. You also indicate that if a depositor purchases paper and pays for his own printing of checks he is reimbursed by the bank in an amount equal to the cost to the bank of supplying the depositor with the same number of checks in the bank's standard form. The Board does not find in the provisions of section 19 of the Federal Reserve Act any objection to a bank's reimbursing a depositor to the extent indicated in either of the two instances referred to in this paragraph."

Approved, together with a letter to the Federal reserve agents at all Federal reserve banks, including a copy of the above letter to Mr. Clerk.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Charles W. Hallock, Vice President of The Citizens Bank, White Plains, New York, reading as follows:
"This is in further reference to your letter of January 21, 1935 wherein you ask whether, in the Board's opinion, a bank will violate the prohibition in section 19 of the Federal Reserve Act against the payment of interest on demand deposits if the expense of furnishing check books and endorsement stamps to depositors, the cost of registered mail and charges for insurance are not collected from the depositors or included in an analysis of their accounts but are absorbed by the bank.

"There is inclosed a copy of a recent ruling of the Board from which certain names have been removed and in which are set forth the principles which the Board believes will control the determination of the questions contained in your letter."

The ruling referred to was contained in the letter to Mr. Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, set forth above.

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Don E. Warrick, Secretary of The Indiana Bankers Association, Indianapolis, Indiana, reading as follows:

"This is in further reference to your letter of December 12, 1934, with respect to the practice of banks in the matter of imprinting and numbering checks for customers and the furnishing of special checks to customers. It is understood from the specific reference in your letter that your inquiry does not relate to checks in the standard form furnished without charge to all customers. You state that in some banks the cost of imprinting, numbering and furnishing special checks is included as a factor in the analysis of accounts and that in other banks such cost is not included as an analysis factor but is actually recovered in cash from the customers. You request the advice of the Board as to the proper practice to be followed by banks in this matter in order to avoid any violation of the provision of section 19 of the Federal Reserve Act that 'No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand.'

"There is inclosed a copy of a recent ruling of the Board from which certain names have been removed and in which are set forth the principles which the Board believes control the determination of your inquiry."
The ruling referred to was contained in the letter to Mr. Clerk, Deputy Governor of the Federal Reserve Bank of San Francisco, set forth above.

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Hale, Cashier of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter dated February 11, 1935, with which was inclosed a copy of a letter from Mr. E. V. Krick, Vice President and Cashier of the American Trust Company, San Francisco, California. Mr. Krick's letter requests a ruling as to whether it is permissible for a member bank to waive a service charge on a small commercial account because of the fact that the depositor carries a savings account sufficiently large in amount to make the bank willing to waive the service charge on the commercial account.

"If the absorption of charges by a member bank in connection with a savings deposit as defined in Regulation Q constitutes a payment of interest on such savings deposit, whether such absorption consists in whole or in part of a waiver of service charges on another account or otherwise, the amount of charges so absorbed, together with the amount of interest paid by the bank directly on the savings deposit, may not under Regulation Q exceed interest calculated at the maximum rate permitted under the regulation. The question whether the absorption of charges under the circumstances set forth in your letter constitutes an indirect payment of interest is to be determined in accordance with the Board's rulings with respect to indirect payments of interest on deposits payable on demand as summarized in the Federal Reserve Bulletin for June 1934 at page 394.

"It is assumed that in the case referred to the service charge on the commercial account is computed without any relation to the amount of the savings deposit and, if so, it seems improbable that the circumstances are such that the absorption would constitute an indirect payment of interest within the meaning of the Board's previous rulings with respect to deposits payable on demand."

Approved.
Letter dated May 10, 1935, approved by four members of the Board, to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letters of November 28, 1934, and January 29, 1935, relating to the question whether certain corporations are affiliates of Equitable Trust Company, Wilmington, Delaware, by reason of the fact that the trust company holds stock of such corporations in various fiduciary capacities.

The proposed Banking Act of 1935, now pending before Congress, contains certain provisions which, if enacted, will have a material bearing upon this problem. In this connection, your attention is directed to the following provisions of the bill:

"SEC. 324. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Federal Reserve Board or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

"SEC. 326. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

"For the purpose of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate * * * (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; * * *"

In view of all the circumstances involved, the Board will defer taking any action regarding the question presented until it is determined whether the proposed amendments will be enacted at this session of Congress. You will be advised when there is
"A further expression of the views of the Board regarding cases of this kind. Please advise Equitable Trust Company accordingly.

"It is noted that while no specific case is submitted, you request an expression of the Board's views concerning the situation which arises where a member bank holds stock as one of several co-fiduciaries. The Board recently ruled that a corporation was not an affiliate of a member bank under such circumstances where the bank could not vote the stock independently and contrary to the wishes of its co-fiduciaries and did not control its co-fiduciaries.

"Wilmington Trust Company, Wilmington, Delaware, forwarded to the Board a copy of its letter of January 11, 1935, to the Federal Reserve Bank of Philadelphia concerning the question whether certain corporations were affiliates of that trust company. There has been no request for a ruling by the Board on the cases discussed in that letter and there appears to be no occasion for any action by the Board. However, it is noted that in two of the cases the possible affiliation arises through the fact that stock of the corporations is held by Wilmington Trust Company in fiduciary capacities and you may desire to advise that trust company in accordance with this letter. If any action by the Board is desired in connection with the other cases discussed in the above mentioned letter from the Wilmington Trust Company, please advise the Board."

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Downs' letter of April 13, 1935, concerning the question whether certain corporations are affiliates of Bankers Trust Company, New York, New York, by reason of the fact that the trust company holds stock of such corporations in various fiduciary capacities.

"The proposed Banking Act of 1935, now pending before Congress, contains certain provisions which, if enacted, will have a material bearing upon this problem. In this connection, your attention is directed to the following provisions of the bill:

"SEC. 324. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:
""Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Federal Reserve Board or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

"SEC. 326. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

""For the purpose of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate ***(7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; ***(7)"

"In view of all the circumstances involved, the Board will defer taking any action regarding the question presented until it is determined whether the proposed amendments will be enacted at this session of Congress. Accordingly, the Board will not, of course, expect any action by Bankers Trust Company until there is a further expression of the views of the Board regarding cases of this kind, and you are requested to advise the Bankers Trust Company of the Board's position.

"It is noted that in some cases Bankers Trust Company holds the stock of other corporations as one of several co-fiduciaries. As you have been advised, the Board recently ruled that a corporation was not an affiliate of a member bank under such circumstances where the bank did not control its co-fiduciaries and could not vote the stock independently and contrary to the wishes of its co-fiduciaries."

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:
"This refers to your letter of October 26, 1934, requesting a ruling by the Board on the question whether certain corporations are affiliates of City Bank Farmers Trust Company, New York, New York, by reason of the fact that the trust company holds stock of such corporations in various fiduciary capacities.

The Board understands that City Bank Farmers Trust Company holds the stock of David Bluestein & Bros., Inc., one of the corporations in question, as one of three co-trustees. Assuming, as stated by counsel for City Bank Farmers Trust Company, that the trust company cannot, under the applicable State laws, vote the stock of the corporation independently and contrary to the wishes of its co-trustees and that the trust company does not control its co-trustees, the Board, in accordance with its previous rulings, is of the opinion that the corporation is not an affiliate of City Bank Farmers Trust Company.

The proposed Banking Act of 1935, now pending before Congress, contains certain provisions which, if enacted, will have a material bearing upon the problem presented by the remaining three cases upon which rulings were requested. In this connection your attention is directed to the following sections of the bill:

"SEC. 324. Section 21 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following paragraph:

"Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Federal Reserve Board or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank."

"SEC. 326. The third paragraph of section 23A of the Federal Reserve Act, as amended, is amended to read as follows:

"For the purpose of this section, the term 'affiliate' shall include holding company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate * * * (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depositary, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; * * * "

"
"In view of all the circumstances involved, the Board will defer taking any action regarding the question presented until it is determined whether the proposed amendments will be enacted at this session of Congress. Accordingly, the Board will not, of course, expect any action by City Bank Farmers Trust Company until there is a further expression of the views of the Board regarding cases of this kind, and you are requested to advise City Bank Farmers Trust Company of the Board's position."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"This refers to Mr. Gidney's letter of March 18, 1935, relating to the termination of the holding company affiliate relationship between Associates of Morris County, Inc., Morristown, New Jersey, and First National Bank in Rockaway, Rockaway, New Jersey.

The Board understands that First National Bank in Rockaway has outstanding 3000 shares of class 'A' preferred stock, 1000 shares of class 'B' preferred stock, and 1000 shares of common stock; that Associates of Morris County, Inc. owns or controls 500 shares of class 'B' preferred stock and all of the common stock; that the Reconstruction Finance Corporation owns all of the class 'A' preferred stock; that at the 1935 annual meeting all of the class 'A' preferred stock, 945 shares of class 'B' preferred stock, and 979 shares of common stock were voted; that all of the shares of stock owned or controlled by Associates of Morris County, Inc., except 21 shares of common stock, were voted; that the proxy for the Reconstruction Finance Corporation was not connected in any way with the First National Bank in Rockaway or Associates of Morris County, Inc.; that the instructions given by the Reconstruction Finance Corporation to its proxy were in substantially the same form as those given to its proxy for stock of Montclair Trust Company which read in part as follows:

"The proxy which is enclosed, authorizes and directs you as to your vote on certain matters which may come before the meeting, and in voting, the provisions of the proxy should be strictly observed. You will see that the proxy 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 (exclusive of stock held by this Corporation) in the election of directors. You are instructed to be cooperative with the holders of the majority of voting stock, held by other than this Corporation, to the end that the policies and plans of that majority in the selection of directors and the conduct of the bank's affairs may be effectuated, but this instruction does not mean that you should sanction any action that is clearly inimical to the interests of this Corporation and you should follow the express instructions of the proxy as to the matters therein set forth.

"On the basis of these facts, the Board agrees with Mr. Gidney's conclusion that Associates of Morris County, Inc. is not a holding company affiliate of First National Bank in Rockaway. In the absence of any further facts which you believe should be called to the Board's attention, you will please advise Associates of Morris County, Inc. and First National Bank in Rockaway accordingly. If in the future the Reconstruction Finance Corporation should execute a proxy to Associates of Morris County, Inc., or a person under its control, a further question might arise concerning the existence of a holding company affiliate relationship and you will please call this fact to the attention of the interested institutions."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, reading as follows:

"This refers to the application of H. Kempner, Galveston, Texas, for a voting permit authorizing it to vote the stock which it owns or controls of The United States National Bank of Galveston, Galveston, Texas, and to your letter of April 11, 1935, relating to the possible termination of the holding company affiliate relationship.

"The Board understands that The United States National Bank of Galveston has outstanding 10,000 shares of preferred stock and 10,000 shares of common stock; that H. Kempner owns or controls 5,980 shares of the common stock; that the Reconstruction Finance Corporation owns all of the preferred stock; that at the bank's 1935 annual meeting 5,283 shares of common stock and all of the shares of the preferred stock were voted;"
"that the proxy for the Reconstruction Finance Corporation was a stockholder of the bank but not otherwise connected with that institution or H. Kempner; and that the instructions given by the Reconstruction Finance Corporation to its proxy read in part as follows:

"As a proxy of the Reconstruction Finance Corporation, you are instructed to be cooperative with the holders of the majority of voting stock, held by others than this Corporation, to the end that the policies and plans of that majority in the selection of directors and the conduct of the bank's affairs may be effectuated. Such limitation on your power may be disregarded in instances where action is proposed clearly inimical to the interest of this Corporation."

The Board has not been advised concerning the number of shares voted by H. Kempner at the bank's 1935 annual meeting but further information in this respect appears unnecessary. On the basis of the facts stated above, the Board is of the opinion that H. Kempner is not now a holding company affiliate of The United States National Bank of Galveston and, accordingly, it is assumed that no further consideration need be given to the application for a voting permit. If, however, 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 further facts, you will please advise H. Kempner accordingly. If in the future the Reconstruction Finance Corporation should execute a proxy to H. Kempner, or a person under its control, a further question might arise concerning the existence of a holding company affiliate relationship and it is suggested that you call this fact to the attention of H. Kempner."

Approved.

Letter dated May 9, 1935, approved by four members of the Board, to the Commerce Clearing House, Inc., Chicago, Illinois, reading as follows:

"Receipt is acknowledged of your letter of April 12, 1935, addressed to the Board's General Counsel, which reads in part as follows:

"The circumstances out of which this inquiry arose are briefly: The "A" corporation controlled more than fifty per cent of the voting stock of the "B" bank, a member of the Federal Reserve System. Under section 2 of the Banking Act of 1933 the "A" bank was a "holding company
"'affiliate" and as such was subject to all the rules and regulations of the Federal Reserve Board imposed by the Act upon holding company affiliates. Subsequently the "B" bank issued preferred stock to the Reconstruction Finance Corporation with full voting rights, the effect of which was to remove the majority control of the "A" corporation, which at no time thereafter exercised such control. Therefore, the "A" corporation is no longer a "holding company affiliate".

"The "affiliate status" of the "A" corporation having terminated, is it automatically absolved from the regulations of the Federal Reserve Board imposed on holding company affiliates? Or, on the other hand, is some official action required to relieve the "A" corporation from further Federal regulation?"

"Under section 5144 of the Revised Statutes of the United States and section 9 of the Federal Reserve Act, a holding company affiliate must secure a voting permit in order to vote the stock which it owns or controls of its subsidiary member bank and the law contains certain requirements and restrictions pertaining to the relationship between the member bank and the holding company affiliate. Upon the termination of the holding company affiliate relationship all of these provisions of law become inapplicable. The question whether in any case the holding company affiliate relationship has terminated is one to be determined in the light of the provisions of section 2(c) of the Banking Act of 1933, in view of all the facts involved in the particular case, and it is not dependent upon any action by the Federal Reserve Board.

"When a holding company affiliate files an application with the Board for a permit to vote stock of a subsidiary member bank, it executes certain agreements. Accordingly, when it appears that the holding company affiliate relationship has been terminated subsequent to the filing of such an application, it is desirable, in order to prevent any misunderstandings and to enable the Board to complete its records and take such other action as it may deem proper, that full information regarding the termination of the relationship be furnished to the Federal Reserve Agent at the Federal Reserve bank for the district in which the holding company affiliate is located so that he may transmit it to the Board. Of course, in any case, without regard to whether an application has been filed, the Board will be glad to pass upon the question whether the holding company affiliate relationship has been terminated if such a ruling is desired.

"In the absence of complete information concerning the
"specific facts of the particular case, no opinion is expressed as to whether the holding company affiliate relationship has terminated in the case to which you refer. If a ruling by the Board on this question is desired, the holding company affiliate should, as suggested above, submit full information to the proper Federal Reserve Agent."

Approved.

Letter dated May 9, 1935, approved by two members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"There are inclosed the original and copies of a permit granted under the provisions of the Clayton Act to Mr. Thomas H. Eckerson, Jersey City, New Jersey, to serve at the same time as director and officer of The Bergen County National Bank of Hackensack, Hackensack, New Jersey, as director and officer of Hudson County National Bank, Jersey City, New Jersey, and as director of The North Bergen Trust Company, North Bergen, New Jersey, for transmittal by you to the applicant and the three banks, and a copy for your files.

"In considering the application of Mr. Eckerson it was noted from information pertaining to an examination of The Bergen County National Bank of Hackensack, as of March 29, 1935, that he had apparently violated section 22(g) of the Federal Reserve Act and that this apparent violation had been reported to the United States District Attorney at Newark, New Jersey. However, the Board is without sufficient information to determine whether the apparent violation was of a kind which would not be reported to the United States District Attorney under the procedure described in the Board's confidential letter of February 13, 1935 (X-9124), if Mr. Eckerson should take steps to correct the apparent violation within a reasonable time. Accordingly, it will be appreciated if you will make such investigation as you may think necessary, and if you find the circumstances to be such that the apparent violation would not have been reported to the United States District Attorney pursuant to the Board's confidential letter of February 13, 1935 (X-9124), please release the permit to the applicant and forward copies thereof to the banks involved, advising the Board of the disposition which is made of the matter. However, if you find that the circumstances were such that it would have been reported to the United States District Attorney pursuant to the
"Board's confidential letter, please hold the permit and advise the Board fully respecting the matter.

"In the event the permit is released to the applicant and copies thereof to 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 the provisions of the Clayton Act relating to interlocking bank directorates."

Approved.

Letter dated May 11, 1935, approved by four members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"Under date of April 13, 1935 Mr. Fry advised the Board of the steps which had been taken in an endeavor to obtain from Mr. Angus W. McLean, Lumberton, North Carolina, a Clayton Act application in proper form covering his services as a director and officer of The National Bank of Lumberton, Lumberton, North Carolina, and as a director and officer of the Atlantic Joint Stock Land Bank, Raleigh, North Carolina. Mr. Fry stated that Mr. McLean's corrected application had not been received, and asked for further instructions.

"In view of the fact that there is pending in the proposed Banking Act of 1935 an amendment to the Clayton Act under which the relationships involved might be excepted, it is suggested that you defer further action in connection with this matter until it can be definitely ascertained whether the proposed amendment will be enacted at this session of Congress. If it is not enacted at this session and if you do not receive a corrected application from Mr. McLean in the meantime, please call the matter again to the Board's attention."

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"There are inclosed the original and copies of a Clayton Act permit granted to Mr. Charles A. Monroe, Chicago, Illinois,
"to serve as officer and director of The American National Bank in Winter Haven, Winter Haven, and the Latin-American Bank of Ybor City, Tampa, both of Florida, for transmittal by you to the applicant with copies to the banks involved and a copy for your files.

"Mr. Munroe's application is dated March 26, 1934, and consideration has been delayed because of the necessity for investigating the applicability of the provisions of Section 32 of the Banking Act of 1933 to his services to a number of corporations.

"The application also includes service as director of the Greenwich Trust Company, Greenwich, Connecticut, and Federal Reserve Agent Case of New York recommended that a permit be denied with respect to such service because of the applicant's apparent inability to attend directors' meetings. On October 17, 1934, Mr. Munroe requested the Board to deny him permission to serve as a director of the Greenwich bank, stating that his interest in the bank was only nominal and he could not spare the time to attend directors' meetings. A recent report of examination of the Greenwich bank shows that he is no longer listed as a director of that institution and it appears that a permit in connection with such service is no longer necessary. In the circumstances, the permit has been issued to cover his services to the Florida banks only.

"When transmitting the permit to Mr. Munroe, please advise him that his services to the Greenwich Trust Company have not been included as it is understood that he is no longer serving that institution but that the Board will consider a request to include such services if he is at present actually serving this bank. Such a request may be made by letter and should be transmitted through your office and accompanied by your recommendation and that of the Federal Reserve Agent at New York. Please also advise Mr. Munroe and the banks involved 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 the provisions of the Clayton Act relating to interlocking bank directorates.

"A copy of this letter is being forwarded to the Federal Reserve Agent at the Federal Reserve Bank of New York for his information and files."

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve...
"Reference is made to your letter of April 26, 1935, concerning the Clayton Act permit granted on November 14, 1934, to Mr. Geo. L. Gilkey, Merrill, Wisconsin, to serve as director of First National Bank in Oshkosh, Oshkosh, and as director and officer of Citizens American Bank, Merrill, both of Wisconsin.

"The Board has noted your suggestion that, because the national bank involved is located in the Seventh Federal Reserve District and the periodic reports of examination are not available to you, the Federal Reserve Agent at the Federal Reserve Bank of Chicago be requested to undertake the periodic report with respect to Mr. Gilkey's attendance at directors' meetings, his borrowings and those of his interests, which was requested in the Board's letter of November 14, 1934, to you. However, in view of the present policy of the Board as set forth in its letter of January 9, 1935 (X-9082), and the proposed legislation now pending before the Congress for the purpose of clarifying and otherwise amending the provisions of the Clayton Act relating to interlocking bank directorates, the Board is willing to allow the permit heretofore granted to Mr. Gilkey to continue in effect without the submission of the report requested in its letter of November 14, 1934. Of course, if there comes to your attention any information with respect to these matters which you feel should be presented for the consideration of the Board it is expected that you will advise the Board fully with respect thereto; and if it subsequently appears desirable to obtain further information regarding these matters, your suggestion that the case be referred to the Federal Reserve Agent at the Federal Reserve Bank of Chicago will be borne in mind."

Approved.

Letter dated May 10, 1935, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, reading as follows:

"Reference is made to your letter of April 24, 1935, with inclosures, submitting the request of Mr. Earl A. Korth, Rhinelander, Wisconsin, for an amendment to his Clayton Act permit. On May 31, 1934, Mr. Korth was granted permission to serve as director of The First National Bank of Rhinelander, Rhinelander, Wisconsin, and as director of Phelps State Bank, Phelps, Wisconsin; and it is noted that he is now serving also
"as vice president of Phelps State Bank and requests that his permit be amended accordingly.

"The Board has approved the request of Mr. Korth and there are inclosed the original and copies of an amended permit covering his present services as director of The First National Bank of Rhinelander and as director and officer of Phelps State Bank for the period ending January 14, 1936, for transmittal by you to the applicant and the banks involved and a copy for your files.

"You observe in your letter that Mr. Korth did not list in his original application the two banks for which he is acting as attorney, but it seems probable that he did not do so because he did not consider himself a 'director, officer, or employee' of such banks within the meaning of the Clayton Act. You also observe that in his letter to you Mr. Korth does not make a direct statement as to whether or not the non-banking organizations which he names make loans on stock or bond collateral. However, it is noted that, on the basis of the information furnished, you are satisfied that Mr. Korth is not serving in violation of the Clayton Act so far as these relationships are concerned.

"When the permit is sent to Mr. Korth and copies thereof to 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 the provisions of the Clayton Act relating to interlocking bank directorates."

Approved.

Letters dated May 9, 1935, approved by three members of the Board, to applicants for Clayton Act permits advising respectively of the issuance of permits by the Board as follows:

Mr. Luther B. Yaple, to serve at the same time as a director of The Citizens National Bank of Chillicothe, Chillicothe, Ohio, and as a director of the Clarksburg Commercial Bank, Clarksburg, Ohio, for the period ending January 14, 1936.

Mr. L. C. Ritchie, to serve at the same time as director and officer of the First National Bank of Spring Lake, Spring Lake, New Jersey, and as a director of the Citizens Bank of
5/11/35

Stuart, Stuart, Florida, for the period ending January 14, 1936.

Approved.

Thereupon the meeting adjourned.

Approved:

[Signature]

Governor.

[Signature]

Secretary.