

A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Wednesday, July 31, 1935, at 11:30 a. m.

PRESENT: Mr. Eccles, Governor
Mr. Thomas, Vice Governor
Mr. Hamlin
Mr. James

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

The Committee acted upon the following matters:

Memorandum dated July 29, 1935, from Mr. Smead, Chief of the Division of Bank Operations, submitting the resignation of Mr. William D. Wallace as a clerk in the Division, effective at the close of business July 29, 1935, and recommending that the resignation be accepted.

Accepted.

Letter to the board of directors of "The Lorain Street Bank", Cleveland, Ohio, 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 Cleveland.

Approved, together with a letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"The Board has received an application of 'The Lorain Street Bank', Cleveland, Ohio, for membership in the Federal Reserve System. The bank is operating two branches, one of which is located in the City of Cleveland and the other is located in Lakewood, Ohio, a residential suburb contiguous to Cleveland and was established on December 5, 1929, through purchase of the Community Bank of Lakewood.

"Lakewood is reported to have a population of approximately 70,000 and according to a current issue of the Bankers' Directory is served by the Peoples National Bank with deposits of approximately \$780,000 as of December 31, 1934, three

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"branches of the Cleveland Trust Company, and the branch of The Lorain Street Bank.

"On May 31, 1935, the date of examination of The Lorain Street Bank in connection with the application for membership, the Lakewood branch had deposits of approximately \$204,000 and its assets consisted of cash, items in the process of collection, and balance due from the head office.

"The Executive Committee of the Federal Reserve Bank of Cleveland has recommended that the application for membership be granted and that the bank be permitted to retain and operate the Lakewood branch and the Federal Reserve Board has approved the application subject to a condition, among others, that prior to admission to membership The Lorain Street Bank shall have received your approval for the retention and operation of the branch in Lakewood. The Board recommends that you approve the retention and operation of such branch on condition that the establishment and operation of the branch has been approved by the appropriate State authorities.

"The attached file includes a report of examination of The Lorain Street Bank as of May 31, 1935, and a copy of the memorandum prepared by the Board's Division of Examinations in connection with the application for membership. It will be appreciated if you will return this file when it has served your purpose and when you have advised the Board of your action in the matter."

Telegram dated July 30, 1935, approved by three members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, referring to the application of the "State Bank of Belle Plaine", Belle Plaine, Minnesota, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months' notice of intention to withdraw and that, accordingly, upon surrender of the Federal reserve bank stock issued to the State Bank of Belle Plaine, the Federal Reserve Bank of Minneapolis is authorized to cancel such stock and make a refund thereon. The telegram noted that the Federal reserve agent had recommended that the six months' notice be waived providing the Board feels reasonably sure there will be no provision inserted in the law at this session of

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Congress that State banks must become members of the Federal Reserve System in the near future in order to maintain their membership in the Federal Deposit Insurance Corporation; and stated that the Board can give no assurances as to what action Congress will take in this respect, and that the Banking Act of 1935, as passed by the House of Representatives, does not contain any such provisions and such provisions in the Act as passed by the Senate refer only to banks having average deposits of \$1,000,000 or more. The telegram further stated that under the provisions of the Board's Regulation "H" the bank may withdraw from membership under the authority of this waiver within two months from the date of the telegram, and that if the Federal reserve agent or the State Bank of Belle Plaine have any reservations as to the wisdom of proceeding in the matter, the bank may choose to defer its withdrawal pending further action on banking legislation at this session of Congress.

Approved.

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

"This refers to the correspondence previously exchanged between you and the Federal Reserve Board regarding the Board's grant of trust powers to 'The Citizens National Bank of Evansville', Evansville, Indiana.

"As you know, the Board on December 11, 1933, approved the application of The Citizens National Bank of Evansville for permission to exercise trust powers, effective if and when that bank and the Citizens Trust and Savings Bank, also of Evansville, are merged under the title of The Citizens National Bank of Evansville, and such approval was given with the understanding that the national bank would sell at least \$200,000 of preferred stock to the Reconstruction Finance Corporation as soon as it was practicable to do so. However, since it was understood that The Citizens National Bank of Evansville had refused to consummate

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"this adjustment in its capital structure, despite the insistence of the office of the Comptroller of the Currency that it do so before that office would approve the merger, and, in view of the length of time that had elapsed since the date of the Board's grant of trust powers to the subject bank, the Comptroller was requested to advise the Board whether the plans for the merger had been abandoned, and, if so, whether he had any objection to withdrawal by the Board of such grant of trust powers. In reply, Mr. F. G. Awalt, Acting Comptroller, stated that his office was in receipt of a letter from the bank indicating that these plans had been abandoned and that he had no objection to the Board's withdrawing such grant. In the circumstances, the Board has decided to withdraw this grant, effective as of today, and you are requested to so advise The Citizens National Bank of Evansville. Of course, the Board will be glad to give further consideration to another application from the bank for permission to exercise trust powers if and when that bank files such an application."

Approved.

Letter dated July 30, 1935, approved by three members of the Board, to Mr. Anderson, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of July 18 enclosing a copy of an inquiry dated July 13, 1935 from Mr. Paul W. Leitch, Secretary of the Pittsburgh Stock Exchange, relating to Regulation T.

"It appears that the inquiry relates to an account in which the following successive transactions were made, the account being unrestricted at the time of the execution of the first of these transactions:

- (1) The customer purchased securities having a margin requirement (cost less maximum loan value) of \$500 more than the excess margin in the account, and the creditor issued a margin call for the \$500.
- (2) On the following day, the customer sold a security for an amount which exceeded its maximum loan value by \$2,000, releasing that amount of margin.
- (3) Later, on the same day, the customer purchased other securities having a margin requirement (cost less maximum loan value) of more than

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"\$2,000, and the creditor issued a margin call for the amount needed to make the account again unrestricted.

Mr. Leitch inquires whether transaction (2) permits the creditor to consider the account 'unrestricted' for the remainder of the day on which that transaction occurs.

"In determining whether or not an account is 'unrestricted' within the definition of section 2(j) of Regulation T, there should be noted the provision, in section 3(f), allowing a creditor in calculating an adjusted debit balance to deduct certain amounts in respect of margins which he has demanded but has not yet received. On this basis, it will be seen that, if each margin call sent by this creditor complied with the conditions of section 3(f)(8), the account was 'unrestricted' after each of the transactions listed above.

"The case presented seems also to involve another question: whether the creditor must obtain \$500 margin, on transaction (1), by the third full business day following the date of that transaction, or whether the margin call for this \$500 was satisfied by the sale of securities which occurred on the following day. Under the provisions of section 4(e), as interpreted by ruling No. 5, dated October 6, 1934, a creditor allowing a customer to effect a transaction in an unrestricted account may bring such account into conformity with the regulation 'by such increase in the maximum loan value of the securities in the account and/or such decrease in the adjusted debit balance of the account as would result in the account being an unrestricted account after eliminating from the computation of the adjusted debit balance any temporary credit given pursuant to clause 8 of section 3(f) for margin required on the transaction and demanded but which has not been obtained'. From this, it would appear that the execution of transaction (2) brought the account 'into conformity' with the regulation, and thus the creditor might regard the \$500 margin call as satisfied. The creditor would then have three full business days from the date of transaction (3) to obtain the additional margin required on account of that transaction."

Approved.

Letter dated July 30, 1935, approved by three members of the Board, to Mr. Sproul, Assistant to the Governor of the Federal Reserve Bank of New York, reading as follows:

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"In accordance with the request contained in your letter of July 25, 1935, the Federal Reserve Board approves the authority given by your board of directors to the officers of the Federal Reserve Bank of New York to earmark silver for the account of the Banco de Mexico upon substantially the same terms and conditions as govern the earmarking of gold for foreign central banks."

Approved.

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

"There is inclosed for your information a copy of a letter dated July 10, 1935, from The Chase Bank, New York, New York, wherein the Board is asked to grant the Bank permission to undertake certain activities in the carrying out of a plan which would make it easier for the French investing public to deal in American securities. Under the plan it is proposed that a number of shares of stock of certain American corporations whose stock is listed on the New York Stock Exchange will be acquired by a syndicate of French bankers and listed on the Paris Bourse and that the certificates evidencing such stock will be registered in the name of The Chase Bank or its nominee and delivered to The Chase National Bank of the City of New York in New York, which will hold them as custodian for The Chase Bank. The plan also calls for the issuance in France by The Chase Bank of bearer certificates evidencing such stock and entitling the holders upon surrender of their certificates to delivery in New York of the stock represented thereby.

"It is the Board's understanding that the plan does not contemplate that The Chase Bank will at any time have any of its own funds invested in the stock or certificates referred to, that the Bank will at no time own or hold any interest in the stock other than the bare legal title incident to its ownership of record and that it will not at any time be subject to liability as the holder of any stock by reason of the fact that shares of such stock are registered in its name or in the name of its nominee. It is also understood that representatives of The Chase Bank have conferred with the Securities and Exchange Commission in regard to this matter and that no action under the plan will be taken until approval of that Commission is obtained if, under the law, such approval is necessary. You are requested to obtain from the Bank written confirmation of the Board's understanding as set forth in this paragraph.

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"As you know, the provisions of section 25(a) of the Federal Reserve Act contemplate that a corporation organized under that section will not purchase and hold the stock of any corporation which transacts in the United States any business except such as in the judgment of the Board may be incidental to the international or foreign business of the corporation. It is not clear from the information submitted in writing by The Chase Bank whether there may be circumstances in which The Chase Bank will receive dividends or exercise voting rights or other rights and privileges accruing to the record holders of the stock for the benefit of the Bank rather than solely for the benefit of the certificate holders. Therefore it is desired that you obtain a definite statement from the Bank covering this point. The Board is of the opinion that the proposed exercise of its powers under section 25(a) of the Federal Reserve Act requires consideration of the purposes and probable effect of the proposed plan. The information submitted in writing by The Chase Bank does not contain a statement of the reasons which in its opinion justify it in engaging in this activity and therefore its statement should be supplemented on this point.

"When the additional information referred to above has been obtained please submit it to the Board with your recommendation as to whether the Board should or should not grant the desired permission."

Approved.

Letter to the Honorable Henry Morgenthau, Jr., Secretary of the Treasury, reading as follows:

"There are inclosed herewith copies of a letter dated July 20, 1935, and of telegrams dated July 29 and 30, 1935, received from the Governor of the Federal Reserve Bank of Atlanta, together with a copy of a telegram sent to him by the Board under date of July 23, 1935, with regard to the receipt of deposits and the issuance of cashier's checks by the Federal Reserve Bank in connection with a suit brought in the United States District Court for the Middle District of Georgia to enjoin the collection of processing taxes. This matter has heretofore been taken up informally with representatives of your Department, and has been the subject of an informal memorandum prepared under date of July 23, 1935, by the Chief of the Division of Deposits of the Treasury.

"It will be observed that it is proposed, in the telegram dated July 30, that the Federal Reserve Bank will issue its

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"cashier's checks on the written request of member banks to the order of the complainants in the litigation, who presumably are customers of the requesting member banks, and that under order of the court the complainants will deposit such checks with certain commissioners appointed by the court to receive and hold the funds paid in by the complainants. These checks will be endorsed by the payees to the order of the commissioners and the judge of the court, and held in escrow until the outcome of the litigation. Apparently, the cashier's checks in question would remain outstanding for an indefinite period pending a final decision in the suit, and during such period would constitute outstanding liabilities of the Federal Reserve Bank against which the required reserve against deposits would be maintained by the bank.

"It will be noted that the Federal Reserve Bank is inclined to accede to the request of its member banks for the issuance of these cashier's checks unless the Federal Reserve Board sees some objection to its doing so.

"In view of the references to the Treasury in the communications from the Federal Reserve Bank and of the interest of the Treasury in deposits of funds of this kind and in the outcome of this litigation, the Federal Reserve Board would be glad to have an expression of the views of the Treasury Department with regard to this matter before advising the Federal Reserve Bank on the subject."

Approved.

Letter dated July 30, 1935, approved by three members of the Board, to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Reference is made to Assistant Federal Reserve Agent Dillistin's letter of May 31, 1935, with inclosure, relative to the Clayton Act permit granted September 12, 1934, to Mr. Frank Zuber, Norwich, New York, to serve at the same time as director of The Chenango County National Bank and Trust Company of Norwich, Norwich, New York, and as director of The National Bank of Oxford, Oxford, New York.

"It is noted that Mr. Zuber made application to serve as director only of the above named banks; that, although your office advised under date of August 14, 1934, that Mr. Zuber was serving as vice president as well as director of The National Bank of Oxford, and a permit, if issued, should include this additional service, such additional service was

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"omitted from the permit subsequently issued under date of September 12, 1934; and that you suggest that his existing permit which does not have a fixed expiration date, be corrected to include his service as officer of The National Bank of Oxford, since an amended permit issued under the Board's usual procedure would be limited so as to expire on a fixed date.

"Inasmuch as the extension of the outstanding permit to include additional services would be tantamount to the issuance of a new permit and in view of the policy set forth in its letter of January 9, 1935, (X-9082), the Board has granted a permit to Mr. Zuber covering his services as director of The Chenango County National Bank and Trust Company of Norwich, Norwich, New York, and as director and officer of The National Bank of Oxford, Oxford, New York, for the period ending January 14, 1936. The original and copies of the permit are inclosed for transmittal by you to Mr. Zuber with copies to the banks involved and a copy for your files.

"When the permit is forwarded to Mr. Zuber and copies to the banks involved, please advise them that the permit has been issued so as to expire at the close of January 14, 1936, in conformity with the uniform practice of the Board since January 9, 1935, adopted because of contemplated 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. If you consider it desirable or necessary, you may also inform Mr. Zuber and the banks involved that the permit expiring January 14, 1936, will serve their purposes as well as an unlimited permit if the amendments to the Clayton Act take any of the alternative forms which have been contained in the proposed Banking Act of 1935 up to this time."

Approved.

Thereupon the meeting adjourned.

Approved:

W. S. ...
Governor.

Chester Howell
Secretary.