

A meeting of the Federal Reserve Board was held in Washington on Friday, August 9, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Letter dated August 8, 1935, from Mr. Kimball, Assistant Secretary of the Federal Reserve Bank of New York, and telegrams dated August 7 from Messrs. Curtiss and Wood, Chairmen of the Federal Reserve Banks of Boston and St. Louis, respectively, August 8 from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, and August 9 from Messrs. Strater and Clark, Secretaries of the Federal Reserve Banks of Cleveland and Atlanta, respectively, all advising that, at meetings of the boards of directors on the dates stated, no changes were made in the banks' existing schedules of rates of discount and purchase.

Without objection, noted with approval.

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

"Reference is made to the report of examination of the 'Southern Arizona Bank and Trust Company', Tucson, Arizona, as of April 6, 1935. On pages 13a and 13b of the report your examiner raises the question as to whether the bank has been making proper provision for depreciation in banking house and furniture and fixtures in accordance with the terms of condition of membership numbered 20, which reads as follows:

Such bank shall make adequate provision for depreciation in its banking house and in its furniture and fixtures, in amounts which in any one year shall be

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"not less than two per cent of the present net carrying value of the banking house and ten per cent of the present net carrying value of its furniture and fixtures.

"It appears that the banking house and lot are carried on the books of the bank at \$77,189.51, that the bank considers that \$10,000 of this amount represents the carrying value of the lot, and that, accordingly, depreciation allowances in 1934 were based on what the bank considered to be the carrying value of the banking house, i.e., \$67,189.51. It appears, also, that, prior to admission to membership, the carrying value of the furniture and fixtures was reduced \$2,343.75 through sale of furniture formerly used in the real estate department, and that depreciation allowances have been based on the net carrying value after deducting the proceeds of such sale.

"Under the terms of condition of membership numbered 20 the bank is required to make adequate provision for depreciation in its banking house, but is not required to make annual provision for depreciation in the building site. It is expected, however, that such an asset will be carried at a reasonable figure. It is contemplated that, under the provisions of condition of membership numbered 20, the bank will make proper adjustments for depreciation in furniture and fixtures as new equipment is purchased or other equipment sold.

"Accordingly, from the information submitted, it appears that the bank has correctly interpreted the provisions of condition numbered 20 and used proper bases for figuring depreciation allowances in 1934. It is assumed, of course, that the carrying value of the furniture and fixtures was properly adjusted at the time of the sale of the furniture and that the account does not represent in part furniture no longer owned by the bank."

Approved.

Letter dated August 8, 1935, approved by four members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to your letter dated July 24, 1935 regarding an inquiry from the North Philadelphia National Bank, Philadelphia, Pennsylvania, as to whether a proposed loan by the bank to a depositor upon the security of the savings deposit would constitute a violation of the Federal Reserve Board's Regulation Q.

"Inclosed with your letter was a copy of a letter to you dated June 19, 1935 from the North Philadelphia National

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"Bank and a copy of your proposed answer to such letter. You stated that before mailing your response you would appreciate the Board's criticisms and suggestions as to the statements therein.

"Accordingly, the Board has considered such letter and wishes to offer certain suggestions with regard thereto. For your convenience, these suggestions have been embodied in the inclosed revision of your letter to the bank."

Approved.

Telegram dated August 8, 1935, approved by four members of the Board, to Governor Newton of the Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your telegrams of July 30 and August 1, and to our previous correspondence with regard to the receipt of deposits and the issuance of cashier's checks by the Federal Reserve Bank of Atlanta 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.

"It appears that the court has issued an order under which the following arrangement would be authorized: In lieu of giving the bond required by statute for indemnification against loss or damage in the event that it should finally be determined that the order was improvidently granted, the complainants in the suit will request member banks to obtain from the Federal Reserve bank cashier's checks payable to the complainants or to certify checks of such member banks payable to the complainants. The amounts required would be equal to the amounts of the processing taxes which have accrued and will be increased from time to time as additional taxes may accrue. The cashier's or certified checks will be issued by the Federal Reserve bank and indorsed by the payees to the order of the judge of the court and of certain commissioners appointed by the court, and will be deposited with the commissioners to be held in escrow until the outcome of the litigation.

"It is the Board's understanding that the plan, as now proposed, contemplates that the only connection which the Federal Reserve bank would have with the matter is the issuance of its cashier's checks or the certification of checks for member banks, and that the Federal Reserve bank will have no further responsibility in the matter except the payment of the

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"checks upon presentation with proper indorsements. Apparently, however, the 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.

"As you have been previously advised, in view of the references to the Treasury in your communications on the subject 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 communicated with the Treasury Department on this subject before the receipt of your telegram of August 1. The Board also transmitted a copy of your telegram of August 1 to the Treasury Department and has now received a letter from the Under Secretary of the Treasury, a copy of which is being mailed to you today. You will observe the statement in the concluding paragraph of the letter that in the circumstances mentioned in the letter it does not appear that the Treasury could properly become a party to the plan.

"In view of the letter from the Under Secretary of the Treasury, the fact that the checks will remain outstanding for an indefinite period of months, and the other circumstances in connection with the matter, the Federal Reserve Board does not look with favor upon a Federal Reserve bank's engaging in transactions of the kind outlined above. However, it is understood that in this particular case the order of the court has already been entered and some cashier's checks have already been issued in accordance with the plan without the knowledge of the Federal Reserve bank of the purpose for which they were requested. In view of these facts and as refusal of the Federal Reserve bank at this time to proceed with the transaction as proposed might bring about a situation which would be inconvenient and embarrassing to the parties involved, the Federal Reserve Board will offer no objection to the carrying out of the proposal in the manner above described in the particular suit in question and under the order of the court which has already been entered."

Approved.

Letter dated August 8, 1935, approved by five members of the Board, to The Honorable Daniel C. Roper, Secretary of Commerce, reading as follows:

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"I have been informed that a Census of Business to be financed by the Works Progress Administration is in preparation in your Department. I also understand that you propose to undertake the regular Census of Manufactures for 1935. I am writing to inquire whether it would be possible to include in your schedules a question in which the Federal Reserve Board has a very keen interest. It relates to the deposit balances of business firms.

"As you doubtless are aware, one of the most serious gaps in our financial statistics is the absence of any current information on the distribution of deposits, which constitute the bulk of the money supply of the country. Such information would, among other things, throw light upon the degree to which various industries could finance expansion without recourse to the banks or the capital market.

"The Federal Reserve Board, itself, has under consideration a sample study of the distribution and activity of deposits over an extended period. Complete coverage of business deposits as of a given date would be extremely valuable to us as a means of ascertaining the coverage of our samples of the deposits of various types of business.

"If, in addition, the same information could be obtained for the same date a year previously, some light would be thrown on what has happened to the money created by the banking system and where stoppages in the flow of purchasing power have occurred.

"Supplying the information would put your respondents to very little inconvenience, as virtually all business concerns have readily available records of their cash holdings.

"Although I understand that the censuses are not intended to cover financial aspects of business, I assure you that if an exception is made in this case the Federal Reserve Board would be deeply appreciative."

Approved.

Letter dated August 8, 1935, approved by four members of the Board, to Mr. J. W. Adams, Division Manager, American Telephone and Telegraph Company, Washington, D. C., reading as follows:

"Reference is made to my letter of August 2, 1935, requesting that the telegraph service between the Federal Reserve Banks of Chicago and Kansas City, furnished by your company under contract with the Federal Reserve Board, be

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"changed from a Morse to a teletype service on an eight hour schedule from 8:30 a. m. to 4:30 p. m., Central Standard Time, daily except Sundays.

"Advice has been received from the Federal reserve banks concerned that a nine hour schedule on this circuit is desirable. Accordingly, it will be appreciated if you will increase the service to a nine hour schedule from 8:30 a. m. to 5:30 p. m., Central Standard Time, daily except Sundays. It is understood from your Mr. DeBarbieri that the line charge for the increased service will be \$856.90 per month, instead of the monthly charge of \$836 on the basis of an eight hour schedule, and that the charge on the teletype machines in regular use will be \$37.50 per month instead of \$35. It is also understood from Mr. DeBarbieri that the change can be made effective immediately.

"It will also be appreciated if you will forward revised appendix sheets covering the changed service for execution and attachment to the contract between your company and the Federal Reserve Board."

Approved.

There were then presented the following applications for changes in stock of Federal reserve banks:

<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 7.</u>		
The First National Bank of Odebolt, Odebolt, Iowa.	168	168
<u>District No. 12.</u>		
The San Marino National Bank, San Marino, Calif- ornia.	42	42
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	Total	210

Approved.

Thereupon the meeting adjourned.

Approved: *M. S. ...*
Governor.

Peter ...
Secretary.