

A meeting of the Executive Committee of the Board of Governors of the Federal Reserve System was held in Washington on Monday, August 26, 1935, at 12:15 p. m.

PRESENT: Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. James

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

The Committee acted upon the following matters:

Letter dated August 22, 1935, from Mr. Kimball, Assistant Secretary of the Federal Reserve Bank of New York, and telegram dated August 23 from Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, both 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.

Telegram to Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, reading as follows:

"Retel August 24. Board approves for your bank rate of $2\frac{1}{2}\%$ per annum on advances to member banks under section 10(b) of Federal Reserve Act as amended, effective immediately."

Approved unanimously.

Letter dated August 23, 1935, prepared in accordance with the action taken at the meeting of the Board on August 21, approved by five members of the Board, to Mr. Max Lowenthal, Interstate Commerce Commission, and reading as follows:

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"Reference is made to our recent interview during which you requested that the Board make available to you for a period of at least six months, in connection with the investigation being conducted by the Senate Committee on Interstate Commerce under the authority of S. R. 71, the services of Mr. George H. Folsom and Mr. Lewis N. Dembitz, members of the staff of the Federal Reserve Board.

"It is understood that the reason for your request is the fact that the resolution referred to provides that the expenses of the Committee on Interstate Commerce in connection with the investigation shall not exceed \$25,000 but that the Committee may obtain the assistance of existing Government agencies in making the investigation.

"The Board will be pleased to make the services of Mr. Folsom available to you for a period up to six months, if necessary. However, Mr. Parry, Chief of the Division of Security Loans, in which division Mr. Dembitz, is employed, has advised that if the latter were released at the present time it would be absolutely necessary that someone else be employed to take his place; that, because of the fact that the work is comparatively novel and highly specialized, it would take not less than six months for a new man to learn enough to be of material assistance, and that, from the point of view of the Division, the release of Mr. Dembitz at this time would be so inconvenient as to be virtually impossible. In view of these circumstances, the Board cannot see its way clear to release Mr. Dembitz, but it will be glad to make available to you, for a period up to six months, the services of any other employee on its staff who can be spared. It is understood that the salary of Mr. Folsom will be paid by the Board during the time he is engaged in the investigation but that any traveling or other expenses incurred by him will be paid from funds available for the investigation.

"The Board has also requested me to advise you that it will be pleased to have its Division of Research and Statistics assist in the investigation in any way it can without interfering with the performance of its regular functions, and it is suggested that if such assistance is desired, you communicate directly with Mr. E. A. Goldenweiser, Director of the Division.

"It will be of material assistance to the Board if you will advise Mr. Leo H. Paulger, Chief of the Board's Division of Examinations, a few days in advance of the time when Mr. Folsom's services will be required so that the employees who will take over his work may have an opportunity to discuss it with him."

Approved unanimously.

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Memorandum dated August 20, 1935, from Mr. Wyatt, General Counsel, recommending that Mrs. Winnie T. DeCosta, a stenographer employed in the legal division since June 29, 1935, be granted leave of absence with pay on account of illness during the period of her absence from August 7 to August 17, 1935, inclusive.

Approved unanimously.

Memorandum dated August 21, 1935, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the temporary appointment, on a month to month basis until an inventory of material in the storeroom is completed, of Mr. Horace Featherstone Drury as a clerk in the Division, with salary at the rate of \$100 per month, effective as of the date upon which he enters upon the performance of his duties.

Approved unanimously.

Letter dated August 23, 1935, approved by four members of the Board, to Mr. Hoxton, Federal Reserve Agent at the Federal Reserve Bank of Richmond, reading as follows:

"This will acknowledge receipt of your letter of August 9 advising the Board of the resignation of Deputy Governor Charles A. Peple, effective September 1, 1935.

"It is noted from the copy of the resolution of the Board of Directors of your bank inclosed with your letter that, under authority of the Federal Reserve Board's letter X-9254 of July 1, 1935, your Board of Directors has directed that Mr. Peple be paid six months' salary in advance from September 1, 1935."

Approved unanimously.

Letter dated August 24, 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:

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"Reference is made to your letter of August 19, 1935, relative to the recent investment of \$17,883.35 by the Dothan Bank & Trust Company, Dothan, Alabama, in banking house and furniture and fixtures.

"In view of your recommendation and the fact that the investment of such amount does not appear to be unduly large or improper or otherwise violate the spirit or purpose of condition numbered 8, prescribed in connection with the bank's application for membership, the Board interposes no objection to the investment in the amount stated, and it is requested that you advise the bank accordingly.

"It is suggested that you call the bank's attention to the Board's views, which are known to your office, with respect to making adequate provision for depreciation in banking quarters and furniture and fixtures owned."

Approved unanimously.

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

"Reference is made to Assistant Federal Reserve Agent Hill's letter of August 12, 1935, recommending approval of a proposed reduction in the common capital stock of the 'Norristown-Penn Trust Company', Norristown, Pennsylvania, from \$1,250,000 to \$1,000,000, pursuant to a plan which provides for the use of the released capital, together with a part of the bank's surplus, undivided profits, and reserve for contingencies, in eliminating all estimated losses and depreciation in lower grade securities investments, as shown in the report of examination of May 11, 1935.

"The Board has considered the information submitted, as well as the condition of the trust company as reflected in the last report of examination, and, in accordance with Mr. Hill's recommendation, approves the reduction of \$250,000 in the common capital stock of the Norristown-Penn Trust Company on the basis of the plan as set forth in Mr. Hill's letter, provided the transaction has the approval of the Secretary of Banking of the Commonwealth of Pennsylvania, and that your counsel is satisfied as to the legality of the proceedings in connection therewith.

"It will be appreciated if you will forward copies of any amendments to the trust company's charter which may be adopted in connection with the capital adjustment and advise the Board as to the eliminations effected as

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"well as any corrections which may have been made of the criticized matters set forth in the last report of examination."

Approved unanimously.

Letter dated August 24, 1935, approved by four members of the Board, to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Reference is made to your telephone conversation of August 20, 1935, with one of the Board's examiners, to the effect that a stockholders' meeting of 'City Deposit Bank and Trust Company of Pittsburgh' has been definitely set by the board of directors for September 10, 1935, for the purpose of considering a plan for the capital rehabilitation of the subsidiary bank. The Board has considered this matter and you are authorized to issue a limited voting permit entitling 'The Union Trust Company of Pittsburgh' to vote the stock which it owns or controls of City Deposit Bank and Trust Company of Pittsburgh for the following purposes only:

"At any time prior to November 15, 1935, to authorize the issuance by such bank of common and/or preferred stock; to authorize a reduction in common capital stock, change in number of shares of stock, and/or change in par value of shares of stock of such bank; and to make such amendments to the articles of incorporation, charter and/or by-laws of such bank as shall be necessary for such purposes; provided, that all action taken shall be in accordance with a plan or plans approved by the appropriate supervisory authorities and satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland.

"Please have the permit authorized herein prepared by counsel for the Federal Reserve Bank of Cleveland in the usual form. It will be appreciated if you will mail to the Board for its records two executed copies of the permit issued by you under the authorization contained in this letter."

Approved unanimously.

Letter dated August 23, 1935, approved by four members of the Board, to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank

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of Minneapolis, reading as follows:

"Receipt is acknowledged of your letter of August 13, 1935 relating to the limited voting permit authorized by the Board's telegram of August 6, 1935, and issued and delivered by your office under date of August 6, 1935, entitling 'Northwest Bancorporation', Minneapolis, Minnesota, to vote the stock which it owns or controls of 'The First National Bank and Trust Company of Chamberlain', Chamberlain, South Dakota, and four other member banks for the purpose of acting upon a proposal to consolidate such banks and Brookings County Bank, Brookings, South Dakota.

"With reference to the Board's telegram, you state:

'The wire referred to states that the action to be taken shall be in accordance with an agreement forwarded by the Deputy Comptroller of the Currency under date of July 30, 1935. Such date appears to be in error, as the agreement was forwarded to the holding company under date of July 20, 1935. Please refer to Mr. Swanson's letter of July 22, 1935.'

"You request the Board to authorize you to correct the date in the limited voting permit. The telegram approved and sent by the Board contained the correct date, July 20, 1935, the error apparently having been made in the transmission of the telegram. According to information received from the office of the Comptroller of the Currency, no consolidation agreement relating to the banks in question was forwarded to Northwest Bancorporation subsequent to that date. The Board understands that the stockholders' meetings to act upon such consolidation proposal have already been held. The Board is of the opinion that, in the circumstances, the error in the date in the voting permit does not affect the validity of any action on the consolidation proposal which was in accordance with the agreement forwarded to Northwest Bancorporation by E. H. Gough, Deputy Comptroller of the Currency, under date of July 20, 1935.

"However, if counsel for Northwest Bancorporation or any of the banks or supervisory authorities involved should feel that it would be desirable to hold new stockholders' meetings in order to eliminate any possible question, a new voting permit should be issued in accordance with the Board's authorization. In order to complete the record in this matter, you may advise Northwest Bancorporation in accordance with this letter, but the Board does not feel that it may properly authorize a change in the date in the

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"voting permit previously issued since such a correction could have no effect on the action already taken."

Approved unanimously.

Letter dated August 23, 1935, prepared in accordance with the action taken at the meeting of the Board on August 21, approved by five members of the Board, to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, and reading as follows:

"Your letters of August 15, 1935, addressed to me and Mr. Morrill, Secretary, in which you stated that the next meeting of the Federal Advisory Council would be held in Washington on September 16 and 17, 1935, have been brought to the attention of the Federal Reserve Board.

"Some of the members of the Board will be absent from Washington at that time and during most of the month of September, and it is probable that a quorum of the Board will not be available on the dates referred to.

"Accordingly, the Board wishes to suggest that the meeting of the Council be deferred approximately one month, when it is believed that all of the members of the Board can be present. It will be appreciated if you will submit this suggestion to the members of the Council and advise the Board of the decision reached.

"In making this suggestion the Board is not unmindful of the requirement of the law that at least four meetings of the Federal Advisory Council be held each year and that the fourth meeting is usually held in November.

"Of course, if the Council decides to hold its meeting on the dates stated in your letters, the members of the Board who are available in Washington will be glad to meet with the Council either before or after its regular meeting, or both, in accordance with the Council's wishes."

Approved unanimously.

Letter to Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, prepared in accordance with the action taken at the meeting of the Board on August 21, and reading as follows:

"Reference is made to the Board's letters of June 29, 1933, and November 2, 1934, with regard to the accounts

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"established on the books of the Federal Reserve Bank of Richmond for the Federal Reserve Board.

"As you know, the Banking Act of 1935 provides that 'Hereafter the Federal Reserve Board shall be known as the "Board of Governors of the Federal Reserve System"'. Accordingly, the Board feels that appropriate changes should be made in the names of its accounts carried on the books of your bank and requests that they be changed as follows:

General Accounts:

<u>Old name of account</u>	<u>New name of account</u>
Federal Reserve Board, Special Fund	Board of Governors of the Federal Reserve System, Special Fund
Federal Reserve Board, Fiscal Agent	Board of Governors of the Federal Reserve System, Fiscal Agent

Building Accounts:

Federal Reserve Board-- Building Account	Board of Governors of the Federal Reserve System-- Building Account
Federal Reserve Board Fiscal Agent-- Building Account	Board of Governors of the Federal Reserve System Fiscal Agent-- Building Account

"Of course, the changes in the names of these accounts do not contemplate that any change will be made by your bank in the procedure followed in handling the accounts.

"The Board has decided to continue to use the checks now on hand which bear the name of the Federal Reserve Board until the supply is exhausted, and it is requested that you continue to honor these checks when presented for payment. There would appear to be no reason why your bank should not exhaust its present stock of forms used in connection with the Board's accounts before printing a new supply."

Approved unanimously.

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

"Reference is made to Mr. Young's letter of July 8, 1935, requesting a ruling of the Board as to whether the Continental National Bank and Trust Company, Chicago, Illinois, is required

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"by the provisions of section 19 of the Federal Reserve Act to maintain reserves against its deposit liabilities consisting of 'uninvested trust funds.'

"In the course of the consideration which has been given to this request certain questions have arisen as to the exact nature of the funds in question and the procedure followed by the bank in its treatment of such funds. Before the Board rules upon the question it is thought advisable to make certain that the facts of the case are correctly understood. Accordingly, you are requested to obtain from the bank and forward to the Board a full and complete statement as to the nature of these 'uninvested trust funds' and as to the procedure followed by the bank in the handling and investment of such funds and the disposition of the proceeds of any income from the investment thereof. Please include a discussion of the bookkeeping methods employed by the bank and an explanation of the various steps in the bank's treatment of the funds from the time of their receipt as trust funds until their final distribution to the beneficiaries of the trust or final investment for the account of such beneficiaries. The statement so furnished should contain, in addition to other information, answers to the following specific questions:

- (1) Have the so-called 'uninvested trust funds' actually been invested in whole or in part? If so, have they been invested by the bank for its own account or for the account of a particular trust or trusts?
- (2) If all or part of such 'uninvested trust funds' consists of cash, how is such cash treated by the bank? Does the bank distinguish between such cash and other cash held by it in its own right, or does it treat all such cash together in the same manner and as one fund?
- (3) Are the securities in which the 'uninvested trust funds' have been invested segregated from securities in which the bank's capital assets have been invested? If so, how?
- (4) Who receives the income from the 'uninvested trust funds'? Is it retained by the bank itself or is it paid over to the beneficiaries of the respective trusts?
- (5) Does the bank handle these uninvested trust funds in a different manner from that employed with respect to similar funds at the time when the bank had a commercial department? If so, explain the differences.
- (6) Does the bank handle these uninvested trust funds in a manner different from that customarily employed by other national banks in your district which do have commercial departments? If so, explain the differences.

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"Any information which you can supply the Board in accordance with the foregoing will be appreciated. You are also requested to furnish the Board an opinion of counsel for your bank on the question which has been presented for the Board's determination."

Approved unanimously.

Letter dated August 24, 1935, approved by four members of the Board, to Mr. J. B. Hamilton, Trust Officer, The First National Bank of Fort Worth, Fort Worth, Texas, reading as follows:

"Receipt is acknowledged of your letter of August 14, 1935, and its inclosures, relating to the custody of notes secured by liens against real property which are held by your bank as trustee. You state that such notes are now in the joint custody of two officers and one clerk of your bank but that this practice makes it rather cumbersome to properly service the notes. You request a ruling by the Board as to whether you may dispense with joint custody of such notes.

"As you know, the Board's Regulation F, relating to the exercise of trust powers by national banks, contains the following provision:

'Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.'

It is believed that this requirement is in accordance with sound trust practices and that, although it may result in some inconvenience to a bank, it is desirable for the protection of both the bank and the beneficiaries of the trust estates. Accordingly, the Board does not feel justified in waiving compliance with such requirement."

Approved unanimously.

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

"This refers to the application of Chandler Investment Company, Marshfield, Oregon, for a voting permit entitling it to vote the stock which it owns or controls of The First National Bank of Coos Bay at Marshfield, Marsh-

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"field, Oregon.

"Information received from the office of the Comptroller of the Currency indicates that The First National Bank of Coos Bay at Marshfield has 1,000 shares of common stock and 2,000 shares of preferred stock outstanding; that the Reconstruction Finance Corporation owns all of the preferred stock; that Chandler Investment Company owns 454 shares of the common stock; and that at the bank's 1935 annual meeting 150 shares of the common stock and all of the shares of the preferred stock were voted. The Board has no information indicating that Chandler Investment Company controls any of the stock of the bank other than the 454 shares which it owns.

"On the basis of such facts, the Board is of the opinion that Chandler Investment Company is not now a holding company affiliate of The First National Bank of Coos Bay at Marshfield and, accordingly, it is assumed that no further consideration need be given to its application for a voting permit. However, if there are any further facts or circumstances which you believe should be considered by the Board in this connection, please so advise the Board. In the absence of further advice from you the Board will consider this matter closed and you may advise the applicant in accordance with this letter. If the Reconstruction Finance Corporation should issue a proxy for a future meeting of the bank's stockholders to Chandler Investment Company or a person under its control, a further question might arise concerning the existence of a holding company affiliate relationship at the time of such meeting and it is suggested that you call this to the applicant's attention."

Approved unanimously.

Memorandum dated August 21, 1935, from Mr. Parry, Chief of the Division of Security Loans, submitting for approval a proposed form to be used in obtaining monthly reports from member firms of national securities exchanges. The reasons stated in the memorandum for recommending approval of the form of report at this time were that customers' debit balances, according to certain confidential figures of the New York Stock Exchange, had begun to increase in recent months, and that the

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development of a new reporting service to the point at which it can be relied upon takes considerable time. The memorandum also submitted for approval a proposed letter to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"The Federal Reserve Board has approved the enclosed form for use in obtaining current monthly reports from member firms of the New York Stock Exchange and other national securities exchanges, and it will be appreciated if you will request all member firms of the New York Exchange that have their principal offices in the New York Federal Reserve district to make monthly reports on this form. The first of these reports for such of these member firms as have their principal offices in New York City should be as of August 31, 1935, and the first reports from other such member firms in the district should be as of September 30, 1935. It is intended that member firms of the New York Stock Exchange which have their principal offices in other Federal Reserve districts should begin to make reports as of September 30, 1935, through the Federal Reserve Banks of their respective districts, and that member firms of all other national securities exchanges should begin to report as of some later date.

"The purpose of these reports is to provide current statistical information for the use of the Federal Reserve Board in the performance of its duties under the Securities Exchange Act of 1934, particularly the regulation, through the prescribing of margin requirements, of the total amount of credit used for the purpose of purchasing or carrying securities. It is believed that changes from time to time in the reported figures, when assembled into aggregates for the reporting firms as a group, will be most informative for this purpose, and the Board hopes to arrange in due time, in accordance with its established practice, for the current publication of such aggregates.

"You are at liberty to quote the foregoing text of this letter, or any part thereof, if you so desire, in your request to member firms for reports.

"The Federal Reserve Board has duly taken action, in accordance with section 17(b) of the Securities Exchange Act of 1934, to require these reports as necessary or appropriate to enable the Board to perform the functions conferred upon it by this Act, from all member firms of the New York Stock Exchange and of other national securities exchanges who

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"are extending credit and who are subject to the rules and regulations prescribed by the Board. It is believed that member firms who answer to this description will in general comply as a matter of course with the request that they submit the reports, without having to be reminded of the fact that the terms of the Act require compliance and that the wilful violation of the requirement by any such member firm would render the firm subject to section 32 of the Act and after legal action to the penalties prescribed by that section.

"In order to avoid misunderstanding by reporting firms, attention may be called when necessary to the fact that the aggregates desired, in order to serve their purpose currently with the Board, must become available to the Board promptly, and that for this reason a report made in good faith by any firm on the basis of data at hand at the end of the month, or within a few days thereafter, will serve its purpose regardless of minor inaccuracies arising from the making of reports before final returns from all the branch offices of a firm are at hand or before the underlying records have been audited.

"When the figures for each month have been properly compiled, kindly forward them as soon as possible to the Federal Reserve Board."

In connection with the above matter there was also considered a memorandum dated August 21, 1935, from Mr. Benedict, Assistant Counsel, expressing the opinion that the report as submitted may be properly and legally required by the Board from all members of national securities exchanges who extend credit, "as necessary or appropriate to enable it to perform the functions" conferred upon it by the Securities Exchange Act of 1934.

After examination and consideration of the memoranda from Messrs. Parry and Benedict and the proposed form of report, it was directed, in accordance with subsection (b) of section 17 of the Securities Exchange Act of 1934, that monthly reports in the form submitted be required from time to time, as necessary or appropriate to enable the Board to perform the functions conferred upon it by that Act, from all firms extending credit of which any partner is a member of the New York Stock Exchange or of any other national securities exchange and which are subject to the

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rules and regulations prescribed by the Board. The right was also reserved, by unanimous vote, to require such amended, or additional report or reports as the Board might from time to time deem necessary or appropriate to enable it to perform the functions conferred upon it by the Act.

The proposed letter to Mr. Case was also approved unanimously.

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

<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 4.</u>		
The Huntington National Bank of Columbus, Columbus, Ohio	150	150
<u>District No. 6.</u>		
The Coral Gables First National Bank, Coral Gables, Florida	1	
The Calhoun National Bank, Calhoun, Georgia	3	
The Pascagoula National Bank of Moss Point, Moss Point, Mississippi	1	
The First National Bank of Springfield, Springfield, Tennessee	<u>3</u>	8
<u>District No. 7.</u>		
Bankers Trust Company, Des Moines, Iowa	45	
First National Bank in Marion, Marion, Indiana	<u>60</u>	105
<u>District No. 8.</u>		
Schuyler County State Bank, Lancaster, Missouri	3	3
<u>District No. 9.</u>		
The First National Bank of Braham, Braham, Minnesota	1	
The Peoples National Bank of Hayward, Hayward, Wisconsin	2	
The First National Bank of Crosby, Crosby, Minnesota	7	
Fergus Falls National Bank & Trust Company, Fergus Falls, Minnesota	15	
The First National Bank of Harvey, Harvey, North Dakota	6	31
	<u>Total</u>	<u>297</u>

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<u>Applications for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 1.</u>		
The First National Bank of Fair Haven, Fair Haven, Vermont	30	30
<u>District No. 8.</u>		
Chippewa Trust Company, St. Louis, Missouri	96	
Lindell Trust Company, St. Louis, Missouri	30	
Mississippi Valley Trust Company, St. Louis, Missouri	300	426
	<u>Total</u>	<u>456</u>

Approved unanimously.

Thereupon the meeting adjourned.

Robert Mowiel
Secretary.

Approved:

J. J. Thomas
Vice Chairman.