A meeting of the Executive Committee (interim) of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 7, 1935, at 11:30 a. m.

PRESENT: Mr. Thomas, Vice Chairman
Mr. James

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary

The Committee acted on the following matters:

Letter dated September 5, 1935, from Mr. Kimball, Assistant Secretary of the Federal Reserve Bank of New York, telegrams dated September 5 from Messrs. McAdams and Sargent, Secretaries of the Federal Reserve Banks of Kansas City and San Francisco, respectively, and telegrams dated September 6 from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, and Messrs. Hoxton and Stevens, Chairmen of the Federal Reserve Banks of Richmond and Chicago, respectively, all advising of the establishment by their banks without change on the dates stated of the rates of discount and purchase in their existing schedules.

Without objection, noted with approval.

Letter dated September 4, 1935, from Mr. Joseph S. Crowder tendering his resignation as a messenger in the Board's Telegraph Office, to be effective as of the close of business on September 9, 1935.

Accepted.

Letter dated September 6, 1935, approved by three members of the Board, to the board of directors of the "First State Bank of Valparaiso", Valparaiso, Indiana, 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 of the Federal Reserve Bank of Chicago.

Approved unanimously, together with a letter to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, also approved by three members of the Board, and reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'First State Bank of Valparaiso', Valparaiso, Indiana, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking for the State of Indiana for his information.

"In accordance with the recommendation contained in Mr. Young's letter of July 16, 1935, the Board has not prescribed the condition of membership originally recommended by the Reserve Bank Committee that, prior to admission to membership, the bank acquire title to, and carry as other real estate, certain properties which were carried in loans and discounts. It is understood that the largest property has been transferred to other real estate account, that others are in the process of adjustment, and that within a reasonable time your office will see that proper adjustment of such loans be made.

"It has been noted that the State laws of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership number 18, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization contained in the Board's letter of March 8, 1935, with particular reference to The Merchants Trust and Savings Company, Muncie, Indiana.

"It has been noted that the reports and statements of the First State Bank of Valparaiso do not reflect the full amount of the bank's outstanding common stock and capital debentures sold to the Reconstruction Finance Corporation but do reflect a nominal surplus. In this connection, as you know, the bank will be required, if it becomes a member of the System, to make and publish reports in the form prescribed by the Board for other State member banks under the provisions of section 9 of the Federal Reserve Act. Accordingly, in order to avoid any misunder-

"standing, it is suggested that you call to the attention of the bank the form of report now required by the Board under the provisions of section 9 of the Federal Reserve Act (Form 105). In this connection, your attention is also called to a statement of the Board's views relating to reports and published statements of member banks contained in its letter to all Federal Reserve Agents of April 21, 1934 (X-7868).

"The bank's application for Federal reserve bank stock has been based on capital stock and debentures of $100,000 and surplus of $27,000. However, as you know, the bank has outstanding capital stock and debentures amounting in the aggregate to $150,000, and its sound assets, after allowing for liabilities to depositors and other creditors, are not adequate to offset the bank's liabilities to stockholders and holders of debentures. Accordingly, the surplus account shown on the bank's books does not actually reflect any assets. Under the provisions of the Federal Reserve Act, a member bank or a bank applying for membership is required to subscribe to Federal reserve bank stock on the basis of its paid-up capital stock and surplus, and, under the provisions of section 9 of the Act, capital debentures sold to the Reconstruction Finance Corporation are, for the purposes of membership, included within the term 'capital stock'. In the circumstances, the Board feels that the First State Bank of Valparaiso should subscribe for Federal reserve bank stock on the basis of its outstanding capital stock and debentures but is not entitled to subscribe for Federal reserve bank stock on the basis of the surplus account shown by its books. Accordingly, prior to issuance of any stock to the bank, you should obtain a supplemental application on F.R.B. Form 35 for the number of shares required to increase the bank's subscription in the appropriate amount on the basis of $150,000 of stock and debentures.

"In connection with the expression of the Board's views contained in the letter to the First State Bank of Valparaiso relating to adjustment of its capital accounts, the Board's attention has been directed to the advice received from your office that, in circumstances such as those involved in the case of the First State Bank of Valparaiso, the State banking authorities of Indiana will not permit the payment of dividends on common stock so long as the bank's capital, including capital debentures, is not represented by an equivalent amount of sound assets."

Letter dated September 6, 1935, approved by two members of the Board, to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to your letter of August 19, 1935, with inclosure, replying to the Board's letter of August 13, 1935, regarding compliance by the 'Union Trust Company', St. Petersburg, Florida, with condition of membership numbered 21 which reads as follows:

'Within six months after the admission of such bank to membership, the 422 shares of its own stock held by trustees as security to certain loans made by such bank in accordance with the terms of an agreement dated January 16, 1932, shall be disposed of at an equitable price and the proceeds applied in accordance with the terms of such agreement.'

"It has been noted that, notwithstanding the fact that the bank has sustained a loss in the compromise settlement of one of the notes covered by the agreement, the agreement has been terminated and the 422 shares returned to Mr. Brophy, who is chairman of the board of directors of the bank. It has been noted, also, that Mr. Brophy had given notice that, if the trustees should attempt to sell the stock, he would contest the validity of the agreement on the grounds that, in declining to grant an additional loan of $8,000, the bank had failed to comply with the terms of the agreement and that the Eureka Investment Company, his personal company, had not received any direct benefit from the additional loans granted the company in order to enable Mr. Brophy to satisfy a personal judgment against him. You state that, while in your opinion the bank has not complied literally with the terms of the condition, you feel that the compromise settlement avoided what might have been an unpleasant controversy and effected an advantageous disposition of an undesirable asset. In view of all of the circumstances, you have recommended, as have the officers of the Reserve Bank, that no question be raised as to compliance with the condition of membership.

"While the Board feels that the propriety of the settlement effected in connection with the pledge agreement is open to question, in view of all the circumstances involved and your favorable recommendation, no action affecting the membership of the bank will be taken in the matter.

"The report of examination of the bank made as of December 3, 1934, by one of your examiners, contains comments which reflect upon the value of Mr. Brophy's influence on the bank, and it has been noted that, following a subsequent examination, the State banking authorities raised a question as to whether the salary paid Mr. Brophy as chairman of the board, and which had recently been increased, is warranted by the services rendered. It is assumed that at the time of the next examination your examiners will give due consideration to the question of management,

"with particular reference to Mr. Brophy's relations with and influence on the bank, and that, in transmitting the report to the Board, you will advise as to whether, in your opinion, such relationship is to the best interests of the bank, and if not, what steps appear to be desirable in the circumstances."

Approved unanimously.

Letter to Mr. G. H. Bangert, President, First National Bank, Kenmore, New York, reading as follows:

"This refers to your letter dated September 3, 1935 regarding Federal Reserve Bank of New York Circular No. 1583 relating to the rate of interest which may lawfully be paid by member banks in New York on time and savings deposits after October 1, 1935.

"You raise the question whether, in view of the fact that the Postal Savings System is now receiving interest at the rate of 2½ per cent per annum, you can consider the arrangement with the Postal Savings System as an 'existing contract' which would be exempted from the ruling incorporated in Circular No. 1583.

"The last paragraph of such circular states that the Board will not object to the payment of interest by a national bank at a rate greater than 2 per cent per annum in accordance with the terms of, and until the termination of, any contract existing on the date on which such bank receives the notice of the limitations effective after October 1, 1935, provided such rate is otherwise in conformity with the provisions of Regulation Q 'and the contract is terminated as soon as possible under the terms thereof'.

"It is the understanding of the Board that deposits of Postal Savings funds may be relinquished by depository banks on the first day of any of the twelve periods into which the year is divided in the regulations of the Postal Savings System relating to the deposit of Postal Savings funds in banks.

"Accordingly, it appears that since such deposits may be relinquished and the contract terminated on October 1, 1935, your bank may not continue to pay a rate in excess of 2 per cent per annum on such deposits after October 1, 1935.

"If you have any further questions regarding this matter or any similar matter, it will be appreciated if you will communicate with the Federal Reserve Agent at the Federal Reserve Bank of New York."

Approved unanimously.

Letter to Mr. William R. White, Deputy Superintendent, Banking Department, New York, New York, reading as follows:

"This refers to your letter of August 30 in which you suggest that the Board of Governors of the Federal Reserve System under authority of section 341 of the Banking Act of 1935 reduce to 2 per cent the rate of interest payable upon Postal Savings funds by banks located in the State of New York. Apparently, you have reference to the portion of the law as amended, which reads as follows: 'Notwithstanding any other provision of law * * * Postal Savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon'.

"As you know, Regulation Q (which is now in process of revision to conform to changes made in the law by the Banking Act of 1935) contains the rules and regulations which the Board has prescribed with respect to the payment of time deposits and interest thereon by member banks of the Federal Reserve System. In response to inquiries, the Board has recently stated that it has been advised that the Banking Board of the State of New York has interpreted its Resolution No. 200 as applying to Postal Savings deposits as well as to other time and savings deposits and, accordingly, that it is the view of the Board that deposits of Postal Savings funds in member banks in New York are subject to the reduced maximum rate of interest of 2 per cent per annum after October 1, 1935, to the same extent as other time and savings deposits. A copy of a letter which was sent by the Board to a national bank in New York on the subject is inclosed for your information. It would appear, therefore, that the reduction which you suggest in the rate payable upon deposits of Postal Savings funds by member banks in New York has already been accomplished. The Board of Governors, of course, has no authority to require that Postal Savings funds be deposited in any particular bank or banks, and the question whether Postal Savings funds will be permitted to continue on deposit with banks at the reduced maximum rate of 2 per cent per annum is not one within the jurisdiction of the Board but would appear to be one for consideration of the Board of Trustees of the Postal Savings System."

Approved unanimously.

Letter dated September 6, 1935, approved by two members of the Board, to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"There is inclosed a copy of a telegram dated September 3, 1935, from Assistant Federal Reserve Agent Hill at the Federal Reserve Bank of Philadelphia, inquiring whether State banking authorities are authorized to examine the books, records, and assets of the trust departments of national banking associations which possess fiduciary powers in view of the amendment to the third paragraph of section 11(k) of the Federal Reserve Act made by section 342 of the Banking Act of 1935. There is also inclosed a copy of the reply which the Board proposes to make to Mr. Hill's telegram.

"It seems apparent that, under the amendment to section 11(k) contained in the Banking Act of 1935, State banking authorities are no longer authorized to examine the books, records, and assets of trust departments of national banks, but, before transmitting the proposed reply, advice as to whether you concur in the views expressed in the attached letter would be appreciated since the question involves national banking associations."

Approved unanimously, together with the proposed letter to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, referred to in the letter to Mr. O'Connor, also approved by two members of the Board, and reading as follows:

"Mr. Hill's telegram of September 3, 1935, asks whether State banking authorities are authorized to examine the books, records, and assets of the trust departments of national banks which possess fiduciary powers in view of the amendment to the third paragraph of section 11(k) of the Federal Reserve Act made by section 342 of the Banking Act of 1935.

"Prior to the enactment of the Banking Act of 1935, the paragraph in question provided that the books and records of national banks relating to their fiduciary business should be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but the provision of section 11(k) relating to this matter has been amended to provide as follows:

'The State banking authorities may have access to reports of examination made by the Comptroller of

"'the Currency insofar as such reports relate to the trust department of such bank, but nothing in this Act shall be construed as authorizing the State banking authorities to examine the books, records, and assets of such bank.'

"In the circumstances, it is clear that State banking authorities are not authorized to examine the books, records, and assets of the trust departments of national banks which possess fiduciary powers."

Memorandum dated September 4, 1935, from Mr. Van Fossen, Assistant Chief, Division of Bank Operations, stating that information had just been received that the Comptroller's office would amend Schedule F in the form of condition report to be used by national banks on the next call by changing item 1(a) of the schedule to read "Treasury Bonds, 2 7/8% of 1955-60" instead of "Fourth Liberty loan bonds", and by changing item 1(b) to read "Treasury bonds, other" instead of "Treasury bonds"; that these changes were being made at the request of Under Secretary of the Treasury Coolidge, in view of the fact that the Treasury anticipates that Fourth Liberty loan bonds now outstanding will be converted on September 16 into the 2 3/4% Treasury bonds or 1½% Treasury notes offered by the Treasury on September 3, 1935; and that it is understood Mr. Coolidge is interested in learning the extent to which the banks hold the 2 7/8% Treasury bonds of 1955-60. The memorandum also stated that Mr. Coolidge had suggested by telephone that similar changes be made in the Board's Form 105, to be used by State bank members in submitting their condition reports on the next call; that it was assumed that, in accordance with past practice, the Board would wish to have Schedule F of its Form 105 changed to agree with the changes being made by the Comptroller's

office in the national bank form; and that it was recommended that the Board authorize such changes.

The proposed changes in Form 105 were approved unanimously.

Telegram dated September 6, 1935, approved by three members of the Board, to Mr. Stevens, Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"Retel September 4. Balances due from private banks were intentionally included in Trans. 2301 as items which are not proper deductions from gross demand deposits in computing net demand deposits subject to reserve requirements under section 19 of Federal Reserve Act as amended by section 324 Banking Act of 1935 on basis of ruling referred to in Bulletin for February 1935 at page 108 in which Board ruled specifically that word 'banks' as used in phrase 'the net difference of amounts due to and from other banks' in section 19 as it then read did not include private bankers or private banking firms."

Approved unanimously.

Memorandum dated September 4, 1935, from Mr. Van Fossen, Assistant Chief, Division of Bank Operations, recommending approval of the following changes in the inter-district time schedule for cash items, which had been requested by the Federal Reserve Bank of Minneapolis and approved by the other Federal reserve banks affected. The recommendation was approved by three members of the Board on September 6, 1935:

			From	To
Minneapolis	to	Omaha	2 days	1 day
"	"	Atlanta	3 "	2 days
"	"	Birmingham	3 "	2 "
"	"	Dallas	3 "	2 "
"	"	Portland, Ore.	4 "	3 "

Approved unanimously.

Letter dated September 6, 1935, approved by three members of the Board, to Mr. Guy W. Lewis, Assistant Trust Officer, Allegheny Trust Company, Pittsburgh, Pennsylvania, reading as follows:

"This refers to your letter dated August 7, 1935 requesting a ruling as to the negotiability and the eligibility for rediscount by a Federal Reserve bank of certain collateral trust notes issued by the Ruffsdale Distilling Company, Braddock, Pennsylvania under a trust indenture naming the Allegheny Trust Company as trustee. Inclosed with your letter was a copy of an opinion of Squire, Sanders and Dempsey, attorneys for the Federal Reserve Bank of Cleveland, to the effect that the notes are non-negotiable and a copy of an opinion of Reed, Smith, Shaw and McClay, attorneys for the Allegheny Trust Company, to the effect that the notes are negotiable. Also inclosed with your letter was a copy of the printed trust indenture under which the notes were issued.

"As you know, the Board has provided in its Regulation A that a note must be negotiable in order to be eligible for rediscount at a Federal Reserve bank. In section IV(a) of such regulation the Board has defined a promissory note to be 'an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer'. This definition substantially incorporates the requirements for a negotiable note as set forth in the Negotiable Instruments Law. Whether or not a given instrument conforms to these requirements and is negotiable, however, depends upon the construction of the particular local law applicable thereto. In view of this fact, it is the opinion of the Board that the Federal Reserve bank which is called upon to rediscount a particular form of note should pass upon the question whether it complies with the Board's requirements.

"You state in your letter that you believe that the same reference to the trust indenture which is contained in the Ruffsdale Distilling Company notes is contained in many hundreds of millions of corporate bonds now in the hands of member banks and for this reason the question as to the negotiability of these notes is more important than it would otherwise be. However, it is believed that not many of such corporate bonds would be eligible for rediscount by Federal Reserve banks because they do not arise out of actual commercial transactions and because they have long maturities. Furthermore, it appears that the question of negotiability would depend upon the wording of each particular instrument and upon the law of each

"jurisdiction.

"The Board feels that since this question is primarily one of local law and since the final determination as to whether the instrument should be rediscounted rests with the Federal Reserve bank, the question as to whether a particular instrument is negotiable, in considering its eligibility for rediscount, should be decided by the Federal Reserve bank with the assistance of its counsel. In the circumstances, the Board does not feel that it should undertake to pass upon the negotiability of the notes in question.

"In view of the fact that your letter to the Board on this subject was written prior to August 23, 1935, the date of the enactment of the Banking Act of 1935, it seems appropriate to invite your attention to section 204 of that Act which reads as follows:

'Sec. 204. Section 10 (b) of the Federal Reserve Act, as amended, is amended to read as follows:

"Sec. 10 (b). Any Federal Reserve bank, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, may make advances to any member bank on its time or demand notes having maturities of not more than four months and which are secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note."'

The regulations to be prescribed by the Board pursuant to this provision of the law are now in the course of preparation."

Approved unanimously.

Telegram to Mr. Griggs, Managing Director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland, reading as follows:

"Please advise Peoples Pittsburgh Trust Company as follows: 'Referring your telegram September 3 Board has not considered negotiability of notes of the Commonwealth of Pennsylvania but recently considered an inquiry as to negotiability of notes of a certain company engaged in the sale of liquor to the Commonwealth of Pennsylvania. This inquiry arose in connection with the eligibility of such notes for rediscount at Federal Reserve banks but the Board expressed no opinion as to the negotiability of such notes. Inasmuch as question is primarily one of local law and final determination as to

"'whether an instrument should be rediscounted rests with the Federal Reserve bank, the Board stated that question of negotiability should be decided by the Reserve bank with the assistance of its counsel. In this connection, however, attention is invited to section 204 of Banking Act of 1935 under which regulations are now in course of preparation by Board. If you desire any further information with respect to the matter it is suggested that you communicate with the Federal Reserve Agent at Cleveland.'"

Approved unanimously.

Letter dated September 6, 1935, approved by three members of the Board, to Mr. W. H. Plant, Vice President, Linderman, Carter and Plant, Inc., New York, New York, reading as follows:

"Referring to your letter of August 30, requesting that the total amount of debits reported for the 141 cities and New York City and any revisions in the previous week's figures be telephoned to you each week as soon as they become available, I regret that we are unable to comply with this request for the reasons stated in our letter of August 27 regarding the telegraphing of such information, but we have arranged to send the statements to you by special delivery beginning with last week. It is assumed that, if you desire this service continued regularly, you will furnish us with a supply of special delivery stamps from time to time.

"In this connection, you may be able to arrange with some local agency, as, for example, a telegraph company, to obtain and wire the desired figures to you upon their release at the Board's offices."

Approved unanimously.

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

"TRANS. NO. 2304. Since Banking Act of 1935 amended subsection (d) of section 14 of Federal Reserve Act by adding at the end thereof the words 'but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board', the definition of code word 'MARSOON'

"has been changed effective immediately from 'no change in existing schedule of rates' to 'Federal reserve bank has today established without change the rates of discount and purchase in existing schedule'. New definition should be inserted in Federal Reserve Telegraph Code Book."

Approved unanimously.

Letter dated September 5, 1935, approved by three members of the Board, to Miss Ida M. Looney, New Orleans, Louisiana, reading as follows:

"Receipt is acknowledged of your letter of August 28, 1935, regarding certain indebtedness of an employee of a Federal reserve bank.

"In the absence of a complete statement setting forth all of the facts and circumstances involved, the Board cannot undertake to give the matter consideration. Moreover, the subject discussed in your letter appears to be one primarily for consideration by the Federal reserve bank concerned."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

E. J. Thomas
Vice Chairman.