

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

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary

The Committee acted on the following matters:

Memorandum dated September 9, 1935, from Miss Marjorie B. Lanston tendering her resignation as a stenographer in the Division of Examinations, to be effective as of the close of business on October 19, 1935.

Accepted.

Telegram to Mr. Peyton, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, authorizing him to issue a limited voting permit to the "First Bank Stock Corporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls in the "First National Bank & Trust Company of Helena", Helena, Montana, "The First National Bank of Great Falls", Great Falls, Montana, and "The National Metals Bank of Hancock", Hancock, Michigan, at any time prior to November 1, 1935, to act upon proposals to increase the common stock of each such bank by the declaration of a stock dividend and to make such amendments to the articles of association, charter and/or by-laws of each such bank as shall be necessary for such purpose; provided that all action taken shall be in accordance with a plan approved by the Comptroller of the Currency.

Approved unanimously.

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Telegram to Mr. Walsh, Federal Reserve Agent at the Federal Reserve Bank of Dallas, authorizing him to issue a limited voting permit to the "Commercial National Bank in Shreveport", Shreveport, Louisiana, or its nominee, entitling such organization or its nominee to vote the stock which it owns in the "Continental-American Bank and Trust Company", Shreveport, Louisiana, at any time prior to November 10, 1935, to act upon a proposal to issue \$250,000 preferred 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 to effect such change in capitalization, all in accordance with a plan satisfactory to the Federal Reserve Agent at the Federal Reserve Bank of Dallas and approved by the appropriate supervisory authorities.

Approved unanimously.

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

"Reference is made to your letter dated November 23, 1934 and inclosures contained therein, requesting an expression of the Board's views as to whether Bankers Trust Company, New York, New York, may lawfully continue to hold certain Shell Union Oil Corporation notes either as 'investment securities', under the provisions of paragraph Seventh of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act, or in the bank's loan account. As you have already been advised, the Board communicated with the Comptroller of the Currency with regard to the question whether these notes are to be regarded as investment securities and, after his views were received, a further reply to your letter was delayed pending the enactment of the Banking Act of 1935 which contains provisions affecting this question.

"From the information submitted in your letter, it appears that on or about November 5, 1934, Bankers Trust Company, a State member bank, purchased Shell Union Oil Corpora-

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"tion 2½ per cent Serial Notes in the amount of \$900,000, such notes being a part of a \$9,000,000 issue, one-third of which matures annually on November 1, 1935, 1936, and 1937. It also appears that the notes purchased by Bankers Trust Company consist of \$300,000 of each of the three maturities. It is understood that all the notes were originally issued in denominations of \$100,000 and \$50,000 but are interchangeable for notes of smaller denominations. You state that Bankers Trust Company paid for the notes by check payable to Shell Union Oil Corporation.

"It is also understood that Bankers Trust Company and the other 18 purchasers of the issue stated that they purchased the notes for their own account for the purpose of investment and not for distribution and that, since the securities were offered to not in excess of 25 purchasers, the securities were not registered under the Securities Act of 1933. It appears that the notes are not actively dealt in on any market although other securities of Shell Union Oil Corporation are actively traded in and are widely held.

"An examination of the form of the definitive notes and of the printed trust agreement discloses that the notes are in the usual form of a corporate note or bond and are issued pursuant to the terms of a trust agreement under which Shell Union Oil Corporation obligates itself to the trustee, Guaranty Trust Company, to pay the interest on and the principal of the notes. The notes may be registered as to principal or payable to bearer, and the notes carry interest coupons payable to bearer. Although the notes are unsecured, the trust agreement contains covenants limiting the right of Shell Union Oil Corporation and its subsidiary companies to make mortgages, pledges or other incumbrances while the notes remain unpaid.

"The first question presented by your letter is whether the notes in question are 'investment securities' as defined in paragraph Seventh of section 5136 of the Revised Statutes and the regulations of the Comptroller of the Currency issued pursuant thereto on February 25, 1927 and December 27, 1934. In response to the Board's inquiry to the Comptroller he stated that, in his opinion, the notes were not 'investment securities' within the meaning of his regulation on the subject because of the fact that they do not have such public distribution as to insure the marketability of the issue. The Board agrees with the opinion of the Comptroller of the Currency upon this point and, accordingly, it will be appreciated if you will advise Bankers Trust Company that the notes may not lawfully be held as 'investment securities' under the provisions of paragraph Seventh of section 5136 of

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"the Revised Statutes and section 9 of the Federal Reserve Act.

"You also request an expression of the Board's views as to whether notes may be held by Bankers Trust Company in its loan account as evidence of a loan by the bank to Shell Union Oil Corporation. The notes in question appear to constitute securities, but as above stated are not 'investment securities' within the meaning of that term as used in section 5136 of the Revised Statutes. Under the provisions of that section as amended by section 308 of the Banking Act of 1935, it is clear that a national bank may not purchase for its own account notes such as those under consideration which are securities but not 'investment securities', and the provisions of section 9 on this subject are clearly intended to place State member banks on a basis of equality with national banks with respect to investments in securities. Accordingly, it is the view of the Board that a State member bank may not, since the enactment of the Banking Act of 1935, purchase for its own account notes of the type here under consideration.

"In view of the amendment to the law the Board believes that it is unnecessary for it to determine the question presented in your letter under the provisions of the law as it existed prior to the enactment of the Banking Act of 1935, and the Board will raise no objection to the continued holding by Bankers Trust Company of the notes in question which were purchased prior to the enactment of that Act.

"It will be appreciated if you will advise Bankers Trust Company of the Board's views in this matter."

Approved unanimously.

Letter dated September 10, 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:

"This refers to your letter dated September 4, 1935 regarding the meaning of the term 'foreign banks' in the provision of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, regarding the deduction from gross demand deposits of amounts due from other banks (except Federal Reserve banks and foreign banks) in computing reserves.

"Inclosed with your letter was a copy of a letter to you dated August 30, 1935 from The First National Bank of Miami, Miami, Florida, asking you to define the meaning of

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"foreign banks". Also inclosed with your letter was a copy of your letter to The First National Bank of Miami defining such term.

"It is noted that your definition of the term is based upon the Board's ruling of February 8, 1928 (X-5075). You ask to be advised whether there has been a later ruling or whether in the opinion of the Board you have incorrectly construed section 19 of Regulation D.

"You are advised that there has been no later ruling of the Board at variance with the ruling of February 8, 1928. It appears that you have correctly stated the substance of such ruling in your letter except that the words 'gross deposits' in the third line of the fourth paragraph of your letter apparently should be 'balances due to banks' or some similar phrase. It is believed, however, that your statement will be understood by The First National Bank of Miami.

"In connection with the proposed revision of Regulation D, consideration will be given to the question whether any modification of the Board's previous rulings on this subject should be made in the light of the changes in the law. You will, of course, be advised of any modification of such rulings."

Approved unanimously.

Letter dated September 10, 1935, approved by two members of the Board, to Mr. Guy T. Helvering, Commissioner of Internal Revenue, Washington, D. C., reading as follows:

"Receipt is acknowledged of your letter of September 4, 1935, requesting the Federal Reserve banks to carefully examine the October 15, 1935 coupons from all \$10,000 U. S. Treasury 4 $\frac{1}{4}$ % Bonds, series 1947-1952, presented for payment, and to mark and retain the envelopes containing coupons from bonds numbered J-00017449 and F-00063816, if found.

"In this connection, there is inclosed, for your information, a copy of a letter which is today being sent to the Governors of all Federal Reserve banks, requesting them to make the arrangements mentioned in your letter."

Approved unanimously, together with a letter to all Federal reserve agents, also approved by two members of the Board, and reading as follows:

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"There is inclosed, for your information, a copy of a letter dated September 4, 1935, received by the Board from Mr. Guy T. Helvering, Commissioner of Internal Revenue, requesting the Federal Reserve banks to carefully examine the October 15, 1935 coupons from all \$10,000 U. S. Treasury 4 $\frac{1}{4}$ % Bonds, series 1947-1952, presented for payment, and to mark and retain the envelopes containing coupons from bonds numbered J-00017449 and F-00063816, if found.

"The Board will appreciate it if you will make the arrangements referred to in Mr. Helvering's letter and, as requested, immediately notify Mr. Elmer L. Irey, Chief of the Intelligence Unit Bureau of Internal Revenue, Washington, D. C., if coupons from either of the above described bonds are located."

Memorandum dated September 11, 1935, from Mr. Morrill stating that under its present lease the Board reserved an option to lease any space that became available on the sixth floor of the Washington Building; that advice had been received that on September 15 there will be approximately 540 square feet of space available on the sixth floor adjoining the space now occupied by the Board, at the same rate as now being paid by the Board (\$2.29 per sq. ft.) if it exercises its option immediately. The memorandum recommended that the Board authorize the leasing of approximately 540 square feet of space on the sixth floor of the Washington Building at \$2.29 per sq. ft., effective September 16, 1935, on the same basis as the space now occupied by the Board in the Washington Building.

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>
District No. 3.	
The First National Bank of Carbondale, Carbondale, Pennsylvania	7

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Applications for ADDITIONAL Stock: (Continued)      Shares

District No. 4.

The Second National Bank of Hamilton, Hamilton, Ohio	5	3
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District No. 7.

National Bank of Monticello, Monticello, Illinois	3	
The National Bank of Martinsville, Martinsville, Indiana	10	
The First National Bank in Humboldt, Humboldt, Iowa	3	
The Citizens Commercial and Savings Bank of the City of Flint, Michigan, Flint, Michigan	<u>150</u>	166

District No. 9.

The Union National Bank of Ashland, Ashland, Wisconsin	6	6
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District No. 12.

Monterey County Trust & Savings Bank Salinas, California	6	
Walker Bank and Trust Company, Salt Lake City, Utah	<u>30</u>	56
	Total	218

Applications for SURRENDER of Stock:District No. 4.

The Union National Bank of New Brighton, New Brighton, Pennsylvania	4	
The Community Bank, Napoleon, Ohio	<u>12</u>	16

District No. 6.

The Claxton National Bank, Claxton, Georgia	34	34
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District No. 11.

The First National Bank of Arcadia, Arcadia, Louisiana	<u>72</u>	72
	Total	122

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Horine  
Secretary.

Approved:

J. J. Thomas  
Vice Chairman.