

A meeting of the Executive Committee (interim) of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 4, 1935, at 2:30 p. m.

PRESENT: Mr. Thomas, Vice Chairman
Mr. James

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

The Committee acted upon the following matters:

Telegrams dated October 3, 1935, from Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, and October 4, 1935, from Mr. Hoxton, Chairman of the Federal Reserve Bank of Richmond, and Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, all advising of the establishment without change by their respective banks on the dates stated of the rates of discount and purchase in effect at the banks.

Noted with unanimous approval.

Memorandum dated October 1, 1935, from Mr. James submitting a letter dated September 27 from Mr. Coe, Deputy Governor of the Federal Reserve Bank of New York, which requested approval of changes in the personnel classification plan of the bank to provide for the creation of the new positions of "assistant chief" and "supervisor (coupon bond exchange section)" in the bond division of the government bond department. The memorandum referred to the statement in Mr. Coe's letter that, since the split-up of the government bond and safekeeping department into the government bond department and the safekeeping

10/4/35

-2-

department, a study has been made of the functioning of the government bond department which indicates that the new positions referred to are necessary in order to provide the proper administration of the department, and recommended that the proposed changes be approved. The recommendation was approved by two members of the Board on October 3, 1935.

Approved unanimously.

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

"This refers to Assistant Federal Reserve Agent Osgood's letter of July 29, 1935, with inclosure, regarding the question raised by an examiner in connection with the last examination of the Depositors Trust Company, Augusta, Maine, as to whether, under the laws of Maine, a member trust company, which is subject to the condition of membership to the effect that if a member bank deposits trust funds in its banking department it must deposit securities in its trust department to secure the payment of the trust funds, may pledge its assets to secure trust funds deposited in its savings department.

"It is noted that under the laws of Maine a bank or trust company may pledge any of its assets as security for trust funds deposited in its own commercial department pending investment or distribution and that a trust company is expressly authorized to deposit trust funds in its commercial or savings department under certain conditions. It also appears that, prior to July 6, 1935, trust companies were required to segregate and set apart assets in an amount equal to the aggregate amount of savings deposits, but Mr. Osgood states that subsequent to such date, while trust funds may be deposited in the savings department, they do not have the protection formerly afforded by segregation of assets and cannot be protected by a pledge of assets as required by the Board's condition of membership without a violation of State law.

"As you know, the Board has consistently taken the position that the condition of membership referred to above contemplates that any deposit of securities in the trust department of a member bank to secure trust funds deposited

10/4/35

-3-

"in its banking department or otherwise used in the conduct of its business shall result in the creation of a valid pledge for the security of such funds, and, if, under the laws of the State in which a particular State member bank is located, such a pledge may not lawfully be made, the bank should not deposit trust funds in its banking department or otherwise use such funds in the conduct of its business.

"On the basis of the information before the Board, the Board feels that, in view of the absence of statutory authority for a State member bank or trust company in Maine to pledge its assets to secure deposits of trust funds in its savings department and in view of the extreme doubt that assets so deposited would result in a valid pledge to secure the payment of such funds, State member banks and trust companies in Maine should not deposit trust funds in their savings departments.

"As you know, the Board has taken the position that, in States where under the State law trust funds deposited in the trustee's banking department are fully protected by a statutory preference in all of the assets of the bank over its general creditors, such a preference affords adequate protection of such trust funds and that it is, therefore, justified in waiving compliance with the condition of membership referred to by banks in those States. However, you stated in your letter of April 26, 1935, that 'in none of the six States in this district are trust funds deposited in the banking department of a bank fully protected by a statutory preference in all of the assets of the bank over its general creditors in the event of liquidation' and, in the circumstances, recommended that compliance with the condition of membership referred to above should not be waived with respect to member banks located in your district. It is also noted that counsel for your bank stated that 'it would seem at best doubtful whether under the laws of Maine trust funds deposited temporarily in the savings or commercial department of a trust company are entitled to a preference over other deposits and general creditors in the event of liquidation.' Therefore, on this basis, the Board would not feel justified in waiving compliance with the condition of membership.

"You are requested to advise the Depositors Trust Company of the Board's position in this matter and advise the Board when correction of the situation referred to by your examiner has been obtained. In this connection, you may wish to consider the advisability of suggesting to the trust company the possibility of taking the matter up with the State banking authorities with a view to obtaining amendments

10/4/35

-4-

"to the State law which will permit it to comply with the requirements of the condition of membership if the bank deems it essential to deposit trust funds in its own savings department."

Approved unanimously.

Telegram dated October 3, 1935, approved by two members of the Board, to the governors of all Federal reserve banks as members of the Federal Open Market Committee, reading as follows:

"A meeting of the Federal Open Market Committee is hereby called to be held in Washington at the offices of the Board of Governors beginning on Tuesday, October 22, at ten-thirty a.m. It will be appreciated if you will advise me by wire as to your attendance."

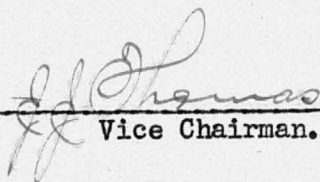
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.