

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, November 8, 1935, at 5:10 p. m.

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

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Cagle, Assistant Chief of the Division  
of Examinations

Mr. Thomas stated that, in accordance with the action taken at the meeting this morning, he desired to submit the following resolution for consideration:

"Resolved, That the application of the Calvin B. Taylor Banking Company of Berlin, Maryland, be reconsidered; that the Board considers that the obligation to waiving depositors under the Depositors Guaranty Fund Agreement and Stock Subscription Agreement effecting its reorganization does not constitute an obligation of the bank resulting in an impairment of its capital stock and that therefore said application be approved, but upon condition that there be endorsed on each certificate of stock now outstanding or that may hereafter be issued, a statement setting forth the obligations to the waiving depositors under reorganization agreements, or in lieu thereof that there be included in each published statement of the condition of said bank a statement setting forth such obligation to the waiving depositors."

It was suggested that, as the application of the Calvin B. Taylor Banking Company of Berlin, Maryland, for membership in the Fed-

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eral Reserve System was submitted approximately two years ago, the Board, before taking further action on the application, might wish to ascertain whether the bank still desired to be admitted to membership and, if so, a new examination should be made on the basis of which the application could be again considered. It was also stated that the application of the I-C Bank and Trust Company, Chicago, Illinois, which involves a similar question as to impairment of capital, is now pending before the Board, and that, if the Board should decide to adopt the policy suggested in the resolution offered by Mr. Thomas, it could be applied in acting upon the application of the I-C Bank and Trust Company and the other cases pending before the Board could be dealt with accordingly.

It was unanimously agreed that depositors in a bank which had issued certificates representing waived deposits, under the terms of which the certificates were subordinated to claims of depositors and other creditors but were to be paid before any distribution of assets to stockholders, were as fully protected as they would be if such certificates were not outstanding; that therefore, the Board should take the position that the capital of the bank is not impaired for the purpose of admission to membership in the Federal Reserve System; and that such a bank would be eligible for membership upon condition (in addition to such other conditions as the Board may see fit to prescribe) that there be indorsed on each certificate of stock outstanding or subsequently issued a statement setting forth the obligation to the holders of the certificates representing waived deposits or, in lieu thereof, that there be included in each published statement of condition of such bank a statement setting forth the obligation to the certificate holders.

It was also agreed that the application of the I-C Bank and Trust Company should be submitted to the Board for consideration on the basis of the new policy as set forth above.

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Consideration was given to a proposed letter to Governor Harrison of the Federal Reserve Bank of New York, prepared in accordance with the action taken at the meeting of the Board this morning and reading as follows:

"Chairman Eccles brought to the attention of the Board at a meeting on November 8, 1935, your letter of November 6 in regard to the cable from Governor Norman and your reply concerning a prospective visit of Mr. Catterns, of the Bank of England, to this country. Following a discussion of the matter the Board asked me to write you that it interposes no objection to the reply which you have made regarding the proposed visit.

"In this connection the Board requested that in this letter I refer to the provisions of section 14(g) of the Federal Reserve Act and advise you that it assumes that you will make a full report to it in writing of any discussions that may take place during Mr. Catterns' visit relating to matters which would be of concern to the Federal reserve system."

Approved unanimously, and the Secretary was authorized to send the letter without circulating it to the members of the Board.

There was then presented a memorandum dated November 6, 1935, from Mr. Hamlin referring to the action taken at the meeting of the Board on October 25, 1935, and stating that, in connection with the formulation of a recommendation to the Board as to the conditions upon which the Board should grant general voting permits to the Transamerica Corporation and Inter-America Corporation, it had been necessary to consider what standard conditions should be prescribed in connection with granting general voting permits. The memorandum recommended (1) that the Board approve a letter attached to the memorandum addressed to Mr. A. P. Giannini, Chairman of Transamerica Corporation,



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and (2) that the Board adopt, as a standard condition to the granting of general voting permits, that, in the absence of special circumstances, holding company affiliates be required to execute agreements containing seven standard provisions recommended in connection with the application of Transamerica Corporation. The memorandum then read as follows:

"In January, 1935, the Board advised Mr. Giannini, in response to a request from him, that he would be afforded an opportunity for a hearing before the Board reached a conclusion with respect to the action it should take on such applications. Attached hereto is a proposed letter to Mr. Giannini, advising him that the Board will afford him an opportunity for such a hearing at a mutually convenient date within fifteen days from the date of such letter.

"The proposed letter states that under the tentative conditions being considered by the Board, Transamerica Corporation and Inter-America Corporation would each be required to execute an agreement before the Board would grant general voting permits to them. The provisions of the agreement to be executed by Transamerica Corporation are set out in full in the letter. Inter-America Corporation would be required to execute an agreement containing the first seven of such provisions.

"The decision of the Board concerning the conditions to be prescribed in these cases depends upon the policy which will be followed by the Board in granting general voting permits. In this connection it should be borne in mind that whatever enforceable requirements the Board desires to make in connection with the granting of a general voting permit must be made at the time of the approval of the application and must be performed or agreed to by the holding company involved prior to the granting of the permit. Accordingly, I have canvassed the situation with members of the Board's staff and discussed the important questions of policy involved. I have also discussed this matter with the Comptroller of the Currency and he has stated that he has no objection to the conditions recommended herein.

"The first seven provisions of the agreement to be executed by Transamerica Corporation have been formulated with the view that they are standard provisions applicable in all cases and that, in the absence of special circumstances, each holding company affiliate should be required to execute an agreement containing such provisions as a condition to the grant-

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"ting of a general voting permit. The provision numbered 8 is a special provision applicable only in the case of Trans-america Corporation but it is contemplated that, in other cases, special provisions may be prescribed in the light of the facts of the particular cases."

Copies of the memorandum had previously been furnished to the members of the Board.

The Chairman stated that he felt the Board should approach the question of policy in connection with the issuance of general voting permits with the thought of exercising such supervision over holding company affiliates as might be found necessary to comply with the intent of Congress and to effect the purposes sought to be accomplished by the statute, and that care should be taken not to attempt to assume more authority over holding company affiliates than is contemplated in the law, which might result in controversy and litigation.

Mr. Miller referred to the provision of law requiring the Board, in acting upon applications for voting permits, to consider the financial condition of the applicant, the general character of the management, and the probable effect of the granting of such a permit upon the affairs of the subsidiary bank, and inquired which of the proposed standard provisions suggested by Mr. Hamlin would have a bearing on the effect of the granting of the permit upon the affairs of a subsidiary bank. Mr. Wyatt replied that he felt that all of the provisions would have such a bearing and that they were being suggested with that thought in view and that the staff felt that the conditions were reasonable and desirable.

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Mr. Eccles inquired whether, under the proposed provisions, a holding company affiliate would be required to adjust the value of bank stocks held by it on the basis of the value as shown by each report of examination made of a subsidiary bank in the future. He stated that such a requirement would be thoroughly impractical and would result in a great deal of confusion and hardship. He therefore urged that provision numbered 1 should not be continuing and that, after the charge-offs were once made by such holding companies so as to bring their book figures down to present values, the holding company should not be required to adjust its books whenever a report of examination of a subsidiary should show a change in asset value. It was pointed out that the first suggested provision would require the holding company, within two years from the date of the issuance of the voting permit, to charge off such part of the book value of its bank stocks as would be in excess of the adjusted value of such stocks; that provision number 7 required that the management of the holding company and its subsidiaries be conducted under sound policies governing their financial and other operations, including statements issued relating thereto; and that the latter provision did not contemplate that the holding company would be required to increase or decrease the carrying value of its bank stocks when a change in value was shown by the report of examination of a subsidiary bank unless such changes in book values might be required by the Board in order to bring the publication or issue of statements within the requirement of "sound policies" as contained in condition number 7.



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Mr. Eccles also inquired what was contemplated by the term "sound financial condition" as used in provision number 7 and it was suggested that an exact definition of the term would depend upon the circumstances in each individual case.

There was a detailed discussion of this and other points raised in connection with the proposed standard provisions following which the provisions were considered separately and provisions number 3, 5 and 7 were amended.

At the conclusion of the discussion, Messrs. Morrill and Wyatt were requested to prepare a letter to the Federal reserve agent at each Federal reserve bank setting forth the proposed seven standard provisions; advising that these tentative provisions had been proposed in an endeavor to carry out what appeared to be the intent of Congress in enacting legislation with regard to holding company affiliates; and requesting each agent to transmit to each holding company in his district whose application is still pending a copy of the letter in order that the company might have an opportunity to submit to the agent in writing criticisms and suggestions which should be transmitted by the agent to the Board within fifteen days from the date of the letter, together with the agent's comments.

Messrs. Morrill and Wyatt were also requested to prepare a letter to Mr. Giannini transmitting the seven proposed standard provisions and the special provision suggested by Mr. Hamlin to be prescribed in connection with the issuance of a voting permit to Transamerica Corporation, and stating that before the Board reaches a conclusion on the matter it will afford Mr. Giannini an opportunity to be heard should he still desire a hearing, within fifteen days from the date of the letter.

During the discussion the question was raised as to the desirability of affording all applicants for general voting permits a hearing before the Board and it was agreed that such action would result in

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undue delay and that hearings should not be granted unless specifically requested.

It was also agreed that the letter to the Federal reserve agents should advise that the Board would issue general voting permits as promptly as possible and that if it should be found in some instances that it was not possible to issue general voting permits before the next annual meeting of shareholders the Board, in the absence of special circumstances, would issue limited voting permits.

Thereupon the meeting adjourned.

Robert Morie  
Secretary.

Approved:

W. S. Lewis  
Chairman.