

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, November 23, 1935, at 11:30 a. m.

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

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

The Board acted upon the following matters:

Letters to Mr. Sproul, Secretary of the Federal Reserve Bank of New York, Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, and Mr. Wood, Chairman of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the Philadelphia and St. Louis banks on November 20, by the New York bank on November 21, and by the Atlanta bank on November 22, 1935, respectively, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Bond in the amount of \$50,000, executed under date of November 16, by Mr. Larry McPherson Odom as Acting Assistant Federal Reserve Agent at the El Paso Branch of the Federal Reserve Bank of Dallas.

Approved unanimously.

Memorandum dated November 19, 1935, from Mr. Wyatt, General Counsel, submitting the resignation of Mr. J. Delafield DuBois as an Assistant Counsel in the Legal Division, to be effective as at the close of business on December 24, 1935, and recommending that the Board accept

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the resignation as of that date.

Accepted with regret.

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

"In connection with its consideration of the application of 'The First National Bank of Boston', Boston, Massachusetts, for a voting permit entitling certain trustees to vote the stock which such bank owns or controls of 'Old Colony Trust Company', Boston, Massachusetts, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 25A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with  
a letter to "The First National Bank of  
Boston", Boston, Massachusetts, reading as  
follows:

"This refers to the application of your bank for a voting permit entitling certain trustees to vote the stock which your bank controls of 'Old Colony Trust Company', Boston, Massachusetts.

"The Board understands that your bank was organized and is operated for the purpose of conducting a general banking

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"business; that 98.75 per cent of the stock of Old Colony Trust Company is held by trustees for the benefit of the shareholders of your bank; that Old Colony Trust Company is operated as a trust company affiliate of your bank and is principally engaged in handling trust business; that your bank owns all of the stock of First of Boston International Corporation and 25 per cent of the stock of French American Banking Corporation, both of which are engaged in the international banking business; that your bank does not manage or control any other bank or banking corporation and has only a relatively insignificant portion of its assets invested in stock of such organizations; and that your bank is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your bank is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for it to obtain a voting permit in order that the stock which it owns or controls of Old Colony Trust Company may be voted and, on this basis, the Board will give no further consideration to its application for such a permit.

"If, however, your bank acquires control over any other bank, or if the facts should at any time otherwise differ from those set out above to an extent which would indicate that your bank might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

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

"In connection with its consideration of the application of the 'Hudson-Harlem Valley Corporation', Mount Kisco, New York, for a voting permit entitling such corporation to vote the stock which it owns or controls of 'Trust Company of Northern Westchester', Mount Kisco, New York, the Board has



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"determined that such applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be re-considered by the Board, please communicate with the Board at once. Otherwise, you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection, it is requested that you advise the Board if, at any time, you believe this matter should again be considered by the Board."

Approved unanimously, together with a letter to the "Hudson-Harlem Valley Corporation", Mount Kisco, New York, reading as follows:

"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of 'Trust Company of Northern Westchester', Mount Kisco, New York.

"The Board understands that your corporation owns or controls 3,156 of the 4,000 outstanding shares of Trust Company of Northern Westchester, its sole subsidiary bank; that your corporation controls through its subsidiaries stock of three other banks but in each case such stock constitutes a very small fraction of 1% of the outstanding stock of the bank; that, except as stated above, your corporation does not own the stock of, or manage or control, any other bank; that approximately one-fourth of the assets of your corporation are invested in bank stock, almost all of the remainder being invested in the stock of a real estate title and mortgage company and the stock of an investment company; and that your corporation was not organized and is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a

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"business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, therefore, is not a holding company affiliate for any purposes other than those of section 25A of the Federal Reserve Act. Accordingly, it is not necessary for your corporation to obtain a voting permit in order to vote the stock which it owns or controls of Trust Company of Northern Westchester and on this basis the Board will give no further consideration to your application for such a permit.

"If, however, your corporation acquires control over any other bank, or the character of the business of your corporation, the nature of its assets, or the purpose for which it is operated should at any time differ from the description thereof contained in this letter to an extent which would indicate that it might be engaged as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

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

"In connection with its consideration of the application of 'J. Henry Schroder Banking Corporation', New York, New York, for a voting permit entitling it to vote the stock which it owns or controls of 'J. Henry Schroder Trust Company', New York, New York, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 25A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

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"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board, if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with a letter to the "J. Henry Schroder Banking Corporation", New York, New York, reading as follows:

"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns or controls of 'J. Henry Schroder Trust Company', New York, New York.

"The Board understands that your corporation owns 7,162 of the 10,000 outstanding shares of stock of J. Henry Schroder Trust Company, but does not hold the stock of, or manage or control, any other bank; that your corporation is principally engaged in the business of international banking and was organized and is operated for that purpose, whereas your subsidiary bank is principally engaged in the general banking and trust business; that only a relatively small portion of your corporation's assets is invested in bank stock; and that your corporation was not organized and is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for your corporation to obtain a voting permit in order to vote the stock which it owns or controls of J. Henry Schroder Trust Company and, on this basis, the Board will give no further consideration to your application for such a permit.

"If, however, your corporation acquires control over any other bank, or the facts should at any time otherwise differ from those stated herein to an extent which would indicate that your corporation might be engaged as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board for its



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"determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

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

"In connection with its consideration of the application of 'Continental Illinois National Bank and Trust Company of Chicago', Chicago, Illinois, for a voting permit entitling certain trustees or their successors as such to vote the stock which such bank owns or controls of 'Continental National Bank and Trust Company of Chicago', Chicago, Illinois, the Board has determined that the applicant is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1935, as amended by section 301 of the Banking Act of 1935, and, accordingly, the applicant is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to the applicant advising it concerning the Board's action in this matter. If, for any reason, you believe that this matter should be reconsidered by the Board, please communicate with the Board at once. Otherwise you are requested to transmit the inclosed letter to the applicant. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with a letter to the "Continental Illinois National Bank and Trust Company of Chicago", Chicago, Illinois, reading as follows:

"This refers to the application of your bank for a voting permit entitling certain trustees or their successors as such to vote the stock which your bank owns or controls of 'Continental National Bank and Trust Company of Chicago', Chicago, Illinois.

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"The Board understands that your bank is engaged in the general banking and trust business and was organized and is operated for that purpose; that your bank owns or controls all the stock, except directors' qualifying shares, of Continental National Bank and Trust Company of Chicago, which stock is held by certain trustees for the benefit of your bank; that your bank owns 48.6 per cent of the stock of State Bank of West Pullman, West Pullman, Illinois, (in liquidation) and owns some stock of other banks but does not manage or control such banks; that only a relatively insignificant portion of the assets of your bank is invested in bank stock; that the assets of your bank are more than 300 times as large as the assets of your subsidiary bank; and that your bank is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your bank is not engaged, directly, or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended by Section 301 of the Banking Act of 1935, and, therefore, it is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. Accordingly, it is not necessary for it to obtain a voting permit in order that the stock which it owns or controls of Continental National Bank and Trust Company of Chicago may be voted and, on this basis, the Board will give no further consideration to its application for such a permit.

"If, however, your bank acquires control over any other bank, or if the facts should at any time otherwise differ from those set out above to an extent which would indicate that your bank might be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, this matter should again be submitted to the Board. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts."

Letter to Governor Harrison, Chairman of the Federal Open Market Committee, prepared in accordance with the action taken at the meetings of the Board on November 8 and 20, 1935, and reading as follows:

"Reference is made to the resolution adopted by the Federal Open Market Committee at its meeting on October 23,



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"1935, in Washington.

"The Board has given careful consideration to the Committee's statement about the present credit situation and the possible desirability of taking steps to absorb some of the excess reserves of member banks, either through the reduction of the System's portfolio of Government securities, or through the raising of member bank reserve requirements.

"In view of the Committee's observations, with which the Board concurs, that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion, and that the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery, the Board feels that it would not be timely to undertake at this stage of business recovery any measure for the absorption of excess reserves.

"The Board is alive to the injurious consequences that will be caused by the excess reserves if they are permitted to go uncontrolled beyond the point where it will become reasonably clear that further pursuit of the policy followed thus far by the Federal Reserve System during the depression will be attended with economic hazards to the country which the System could not safely assume. When and as that point approaches the Board will act.

"A preliminary study has been made of the possible effects on the position of member banks of any change in reserve requirements that might be made by the Board. A summary of the results of this study, as presented by the Division of Bank Operations, is attached.

"The authority granted in the motion adopted by the Federal Open Market Committee at its meeting with respect to the purchase and sale (which it is understood would include allowing maturities to run off without replacement) of Government securities by the executive committee, is in the same form as that approved by the Federal Open Market Committee at its meeting on May 27, 1935, and, inasmuch as it provides that before any purchases or sales are made by the executive committee telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board will be obtained, there appears to be no necessity for the Board to take action on the authority at this time. However, the Board will hold itself in readiness to consider any action proposed by the executive committee with the approval of a majority of the Federal Open Market Committee, as provided in the motion.

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"The second motion adopted by the Federal Open Market Committee authorizes the executive committee to make shifts of maturities of Government securities in the System account up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds in the account be not over \$500,000,000. The Board has carefully considered the reasons given for the adoption of this motion, but feels that a substantial shift in maturities of securities held in the account would not be desirable at this time. Therefore, the Board approves the authority given to the executive committee only to the extent necessary to enable the committee to replace securities maturing between now and the date of the next meeting of the Federal Open Market Committee which will be held sometime before the end of the current year in compliance with the requirement of the law that at least four meetings be held each year.

"A copy of this letter is being forwarded to the Chairman of the board of directors of each of the Federal reserve banks."

Approved unanimously, together with a letter to the chairmen of all Federal reserve banks inclosing a copy of the above letter.

Letter to Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, prepared in accordance with the action taken at the meeting of the Board on November 20, 1935, and reading as follows:

"The members of the Board of Governors of the Federal Reserve System have read with interest your letter of November 15, 1935, inclosing a copy of the statement adopted by your executive committee as an expression of the opinion of the board of directors of your bank after a review of the report of the meeting of the Federal Open Market Committee on October 22-24, 1935. It is noted that the statement has been concurred in by every member of your board with one exception, and that the opinion of that director is definitely that action should be taken toward a decrease in the amount of holdings of government securities by Federal reserve banks, either by the sale of securities or by allowing maturities to run off without replacement, rather than by action providing for an increase in the reserve requirements of member banks.

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"The statement referred to reads in part as follows:

'We, therefore, as a Board, desire to respectfully suggest for earnest consideration by the Board of Governors of the Federal Reserve System, an increase in required reserves against bank deposits in Central Reserve and Reserve City banks to possibly twenty-five per cent of the increase now permitted by law, thereby not only fortifying our banking structure to this extent, but giving assurance to business and the public that the levers of control are operative and in the hands of authorities who are ready to use them. We believe that such action accompanied by a proper statement of its objectives would be favorably interpreted by the financial and business interests rather than otherwise.

'We recognize that in addition to the measure referred to, that of an increase in required reserves, consideration may properly be given to another effective power in the control of inflationary tendencies, under which credit may be withdrawn from the market either by the sale or by the maturity without replacement of Government securities held in the Federal Reserve System. However, because it is considered that the application of such a measure might be reflected in the market for Government bonds at this particular time, we are disposed to suggest the primary consideration of an increase in reserve requirements.'

"The action taken by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1935, and the statement quoted in your letter have been very carefully considered by the Board, and there is being addressed to the Chairman of the Federal Open Market Committee today a letter advising of the Board's decisions in connection with the resolution and motions adopted by the committee. This letter contains the following paragraphs:

'In view of the Committee's observations, with which the Board concurs, that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion, and that the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery, the Board feels that it would not be timely to undertake at this stage of business recovery any measure for the absorption of excess reserves.

'The Board is alive to the injurious consequences that will be caused by the excess reserves if they are



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"permitted to go uncontrolled beyond the point where it will become reasonably clear that further pursuit of the policy followed thus far by the Federal Reserve System during the depression will be attended with economic hazards to the country which the System could not safely assume. When and as that point approaches the Board will act.'

"The Board appreciates very much the interest which your directors are taking in the question of System open market policy and expresses the hope that they will not hesitate to give the Board the benefit of any views that they may have from time to time on this important subject."

Approved unanimously.

Letter to Mr. J. Will Taylor, President, Union Trust Company of Clairton, Clairton, Pennsylvania, reading as follows:

"We regret to find that no reply has been made to your letter dated July 20, 1935, regarding the question whether your bank may permit withdrawals, without notice, of accrued interest credited to savings deposits.

"As an example, you state that a savings depositor has a balance of \$5,000 on which interest was credited on June 30, 1935. On July 20, 1935, such depositor requested that he be allowed to withdraw \$100 in accordance with rule 3 of your savings account rules and regulations and, in addition, requested that he be allowed to withdraw the interest which had been credited to his account on June 30, 1935.

"Rule 3 of your savings account rules and regulations requires 31 days' notice for withdrawal of an amount up to \$400 and longer periods of notice for larger amounts, and also contains the following proviso:

'Provided, however, the Company may at its option waive notice of withdrawal of as much as \$100.00 against any one notice; but in accordance with the provision of Federal Reserve Board's Regulation Q, Series of 1933, the Company reserves the right to require a notice of thirty-one days for the withdrawal of any amount.'

"You state that it is your thought that possibly section VI of Regulation Q permits your bank to grant the depositor's request, provided that the bank treats all

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"similar requests in the same manner. You also state that it would not be your intention to change the bank's rules and regulations but, instead, to have the bank adopt a practice of waiving notice of payment of interest on savings deposits, if such payment were requested within 30 days after the interest had been credited.

"It is understood from the above quoted rule that it is the practice of your bank to waive notice for withdrawals from savings deposits of not more than \$100. It is also understood that you propose to change your practice in this regard so as to add to the amount which may be withdrawn without notice all accrued interest which has been credited to the account not more than 30 days before the date of withdrawal.

"The Board is now engaged in a revision of Regulation Q in order to bring such regulation into conformity with the law as recently amended, and the question which you present will be considered in connection with such revision. However, until the issuance of such regulation, the Board will raise no objection to the payment by your bank, without notice, of interest on savings deposits in accordance with the change of practice proposed in your letter and outlined above, provided that it shall, upon request and without requiring notice, pay interest under the same circumstances on the savings deposits of every other depositor.

"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 Cleveland."

Approved unanimously.

Letter to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, prepared in accordance with the action taken at the meeting of the Board on October 30, 1935, and reading as follows:

"Reference is made to your letters of June 12, 1935, and October 10, 1935, with respect to the question whether certain 'agency accounts' in the foreign department of the Industrial Trust Company, Providence, Rhode Island, are deposits within the meaning of section 19 of the Federal Reserve Act.

"This question has its origin in an earlier ruling of the Board which was contained in a letter to Mr. Paddock

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"dated January 4, 1934, and in which the Board gave consideration to the nature of certain 'foreign currency deposits' of the Industrial Trust Company representing funds placed with the Trust Company for deposit with a foreign correspondent bank in the name of the Trust Company. Without expressing any view as to the exact legal relationship between the Trust Company and its customers under this arrangement the Board ruled that the sums received pursuant thereto should be regarded as deposits within the meaning of the spirit and purpose of the provisions of section 19 of the Federal Reserve Act relating to the payment of interest on deposits.

"The 'agency accounts' in the foreign department of the Trust Company which constitute the subject of the present inquiry differ from the 'foreign currency deposits' which were previously considered by the Board and the scope of the present inquiry is broader than that previously submitted inasmuch as the Board is now asked whether the 'agency accounts' are deposits within the provisions of section 19 relating to the reserves required to be kept by member banks, as well as the provisions relating to the payment of interest on deposits to which the earlier inquiry was confined.

"The Board has considered the question presented to it in the light of the letter from the Trust Company, the forms used by the Trust Company in connection with these 'agency accounts', and the opinions rendered by counsel for the Trust Company and counsel for your bank, all of which were inclosed with your letter of June 12, 1935, as well as in the light of your letter of October 10, 1935, and the Trust Company's letter of October 9, 1935, which was inclosed therewith. It has also been noted that, under the Banking Act of 1935, the Board is authorized in the opening paragraph of section 19 to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the section and to prevent evasions thereof.

"It is understood that these 'agency accounts' are used by the Trust Company chiefly because a large number of its customers are of foreign birth and prefer to carry accounts in a particular foreign currency rather than to open accounts in dollars. In addition, the Trust Company makes specific reference to other customers who have future commitments in Sterling which they wish to cover by buying spot Sterling outright, paying the Trust Company cash and having the Trust Company through an 'agency account' carry the Sterling for them, thus making it unnecessary for them to open accounts in London for that purpose.

"The instrument which is signed by the customer at the time of the creation of one of these 'agency accounts' refers



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"to the customer as the 'Client', to the Trust Company as the 'Agent' and to the amount deposited as the 'Fund'. No mention is made of any 'deposit' or 'depositor'. In paragraph (1) it is provided that the Fund shall continue to belong to the Client. It is subsequently provided that any shrinkage or loss which shall occur in the Fund is to be borne by the Client. In paragraph (2) the Trust Company is authorized:

'\* \* \* to mingle the Fund with other like funds and funds of its own in the same currency, to invest the Fund either separately or mingled with such other funds in its discretion in any form of foreign exchange or in deposit in any bank or otherwise as it may deem best, and at the sole risk of the Client, and without being liable for or to account for any shrinkage or loss in the Fund, however occurring, not due to its own gross negligence or bad faith, nor for any consequences of its acts undertaken or done in good faith.'

"There is no provision for partial repayment of the Fund to the Client but upon demand of the Client the Trust Company is required to account for the amount of the Fund, together with net income and profit computed as provided in the instrument, payment to be made either on demand or on 30 days' notice depending upon which provision is selected by the Client at the time of executing the instrument.

"In paragraph (5) it is provided that the Trust Company may retain as its compensation all net income and profit in excess of a stated maximum and in any event shall be entitled to compensation, out of the principal of the Fund if necessary, at the minimum rate of one half of one per cent per annum of the amount of the Fund. It is also provided that payment of the amount found due the Client shall be made by delivery of a draft drawn by the Trust Company upon its foreign correspondent in the currency named in the certificate, except that if delivery of such a draft becomes impossible the Trust Company may make payment by other means.

"Unlike the certificate considered by the Board in its ruling on the previous inquiry, there is no assurance that the Trust Company will use the Fund to establish a credit with a designated foreign correspondent for, as indicated in the quotation above, the Trust Company is given authority to invest the Fund as it may deem best.

"It is understood that the Trust Company considers that the arrangement constitutes an agency relationship between itself and its customers. Counsel for the Trust Company in

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"their letter of April 3, 1935 say:

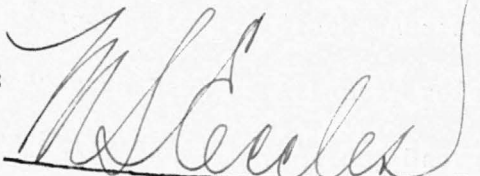
'While the mechanics of the relation necessarily are slightly different, we believe that the theory of this account as now arranged is substantially identical with that of trust funds, and that the amounts held in these foreign accounts have the same status as trust investments, the net income on which is paid to the beneficiary after deducting expenses and compensation to the trustee.'


"The Board is of the opinion that on the basis of the facts which have been presented to it the 'agency accounts' in the Industrial Trust Company do not constitute 'deposits' within the meaning of the provisions of section 19 of the Federal Reserve Act which relate to reserve requirements or the provisions of the section which relate to the payment of interest on deposits. In notifying the Industrial Trust Company of the Board's position you are requested to advise the Trust Company that the Board reserves the right to issue regulations requiring that the accounts, be treated as deposits under section 19 if at any time in the Board's judgment this action becomes necessary in order to prevent the evasion of the provisions of the section. You are also requested to keep yourself advised of the manner in which these 'agency accounts' and other similar accounts are handled by the Industrial Trust Company or by any other member bank in your district and to bring to the attention of the Board any case in which it appears that such accounts are being used as a means of evading the requirements of the law."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.