

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 26, 1935, at 11:00 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations

Chairman Eccles stated that the suggestion had been made that the action of the Board, as set forth in its letter of November 23, 1935, to the Chairman of the Federal Open Market Committee, with regard to the motion adopted by the Committee at its meeting in Washington on October 22-24, 1935, concerning shifts in maturities of securities held in the System account, might be too restrictive should conditions arise prior to the next meeting of the Federal Open Market Committee which would make it desirable for the executive committee of the Federal Open Market Committee to make shifts of maturities held in the account to meet conditions in the Government bond market and that, while he still felt that a substantial shift from short term to long term securities would be undesirable at this time, he believed there would be no objection, and that it would meet any situation which might arise, if the executive committee of the Federal Open Market Committee were authorized to replace securities

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having shorter maturities with securities having maturities of not to exceed five years, in an aggregate amount of not more than \$500,000,000.

The matter was discussed and it was agreed that there should be prepared for consideration a letter to the Chairman of the Federal Open Market Committee along the lines of Mr. Eccles' suggestion.

At this point Mr. Cherry, Assistant Counsel, joined the meeting.

The Board then proceeded to take up for consideration drafts of revised regulations which had been prepared following the enactment of the Banking Act of 1935, it having been pointed out that the Act made a number of changes in existing law and the members of the Board being in agreement that it was desirable to revise and reissue most of the present regulations in order to accomplish the purposes of the law as amended.

Chairman Eccles suggested that attention first be given to the draft of Regulation "I", Increase or Decrease of Capital Stock of Federal Reserve Banks and Cancellation of Old and Issue of New Stock Certificates. It was pointed out that a draft of this regulation and attached forms and a draft of a letter of instructions to the Federal reserve agents relating to the checking and handling of applications for the issuance and cancellation of Federal reserve bank stock had been sent to all Federal reserve banks for their comments and criticism; that upon receipt of replies from the banks certain changes in the drafts were agreed upon by members of the Board's staff; that the drafts of regulation and letter of instructions as revised had been submitted to all members of the Board and considered at an informal conference of some of the members of the Board

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with the staff; and that no important questions had been raised at the conference.

Upon motion by Mr. Hamlin, the regulation was approved and adopted unanimously in the following form, to become effective as of January 1, 1936:

"REGULATION I

Revised effective January 1, 1936
(Superseding Regulation I, Series of 1930)

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS
AND CANCELATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

"STATUTORY PROVISIONS

"This regulation is based upon and issued pursuant to various provisions of the Federal Reserve Act, the most important of which are published in the Appendix hereto.

"SECTION 1. NATIONAL BANKS IN PROCESS OF ORGANIZATION

"Each national bank,¹ while in process of organization² (in-

¹ Under the provisions of section 19 of the Federal Reserve Act, national banks located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. Any such bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve bank with which it desires to do business.

² A new national bank with no capital or board of directors which is organized by the Federal Deposit Insurance Corporation pursuant to the provisions of paragraph (9) of subsection (1) of section 12B of the Federal Reserve Act, as amended, should not apply for stock of the Federal Reserve bank of its district until it is in process of organization as a national bank with capital pursuant to the provisions of paragraph (11) of subsection (1) of section 12B of the Federal Reserve Act, as amended.

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"cluding each nonmember State bank converting into a national bank,³ while in process of such conversion) shall file with the Federal Reserve Agent at the Federal Reserve bank of its district an application on Form 30, or, if a nonmember State bank converting into a national bank, on Form 30a, for an amount of capital stock of the Federal Reserve bank of its district equal to six per cent of the paid-up⁴ capital and surplus of such national bank. If such application be found to be in proper form it shall be approved by the Federal Reserve Agent effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application be approved, the applying bank shall thereupon⁵ pay the Federal Reserve bank of its district one-

³Whenever any State member bank is converted into a national bank under section 5154 of the Revised Statutes, as amended by section 8 of the Federal Reserve Act, it may continue to hold as a national bank its shares of Federal Reserve bank stock previously held as a State bank, and need not file any application for additional shares of Federal Reserve bank stock or for cancellation of Federal Reserve bank stock unless the aggregate amount of its capital and surplus is increased or decreased, in which event it should file an application for additional stock or for cancellation of part of its holdings of such stock, as the case may be, as provided in section 3 of this regulation. The certificate of stock issued in the old name of the member bank, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof in the new name of the member bank, as provided in section 11 of this regulation.

⁴Subscriptions to the capital stock of the Federal Reserve bank must be made in an amount at least equal to six per cent of the amount of the capital and surplus of the applying bank which is to be paid in at the time the Comptroller of the Currency authorizes it to commence business. In order to avoid the necessity of making applications for additional stock in the Federal Reserve bank, as additional installments of the capital and surplus of the applying bank are paid in, application may be made for stock in the Federal Reserve bank in an amount equal to six per cent of the authorized capital of the applying bank, plus six per cent of the amount of surplus, if any, which the subscribers to the capital of the applying bank have agreed to pay in.

⁵Payment may be made, if desired, at any time prior to approval of the application.

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"half of the amount of its subscription and, upon receipt of advice from the Federal Reserve bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend; and upon receipt of the payment for Federal Reserve bank stock the Federal Reserve bank shall issue a receipt therefor, place the amount in a suspense account, and notify the Comptroller of the Currency that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business the Federal Reserve bank shall issue a stock certificate to the applying bank as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription of the applying bank shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

"SECTION 2. STATE BANKS BECOMING MEMBERS

"Any State bank, Morris Plan bank, or mutual savings bank, as defined in the Board's Regulation H, desiring to become a member of the Federal Reserve System shall make application as provided in Regulation H, and when such application has been approved by the Board of Governors of the Federal Reserve System and all applicable requirements have been complied with the Federal Reserve bank shall issue an appropriate certificate of stock as provided in Regulation H.

"SECTION 3. INCREASE OR DECREASE OF CAPITAL OR SURPLUS BY MEMBER BANKS

"Whenever any member bank shall increase or decrease the aggregate amount of its paid-up capital⁶ and surplus,⁷ it shall file

⁶In view of the provisions of section 9 of the Federal Reserve Act, as amended June 16, 1934, the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation should be included, and the amount sold to others should not be included, in determining the amount of Federal Reserve bank stock which a member bank is required to hold.

⁷In the case of a member bank which sets up a reserve for dividends payable in common stock, whether in connection with the retirement of preferred stock, capital notes or debentures or otherwise, such reserve shall be regarded as surplus for the purpose of determining the amount of Federal Reserve bank stock which the bank is required to hold, provided such reserve is established pursuant to a resolution of the board of directors of the bank involved, will become a part of the permanent capital of the bank and will not be used for any other purpose than the payment of dividends in common stock.

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"with the Federal Reserve Agent at the Federal Reserve bank of its district an application on Form 56 for such additional amount or for the cancelation of such amount, as the case may be, of the capital stock of the Federal Reserve bank of its district as may be necessary to make its total subscription to stock of the Federal Reserve bank equal to six per cent of its combined capital and surplus. After an application for additional Federal Reserve bank stock has been approved by the Federal Reserve Agent, the applying member bank shall pay to the Federal Reserve bank of its district one-half of its additional subscription, plus one-half of one per cent a month from the period of the last dividend on such Federal Reserve bank stock, whereupon the appropriate certificate of stock shall be issued by the Federal Reserve bank. The remaining half of such additional subscription shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. After an application for the cancelation of Federal Reserve bank stock has been approved by the Federal Reserve Agent, the Federal Reserve bank shall accept and cancel the stock which the applying bank is required to surrender, and shall pay to the member bank a sum equal to all cash paid subscriptions made on the stock canceled with one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof.

"SECTION 4. INCREASE OR DECREASE OF DEPOSITS BY MUTUAL SAVINGS BANKS

"Whenever, as shown by the last report of condition as of a date preceding January 1 or July 1 of each year, the total deposit liabilities of a mutual savings bank which is a member of the Federal Reserve System shall have increased or decreased since the last adjustment of its holdings of Federal Reserve bank stock, the bank shall file with the Federal Reserve Agent at the Federal Reserve bank of its district an application on Form 56a for such additional amount or for the cancelation of such amount, as the case may be, of the capital stock of the Federal Reserve bank of its district as may be necessary to make its total subscription to stock of the Federal Reserve bank equal to six-tenths of one per cent of its total deposit liabilities as shown by such last report of condition. After an application for additional Federal Reserve bank stock has been approved by the Federal Reserve Agent, the applying member bank shall pay to the Federal Reserve bank of its district one-half of the amount of its additional subscription, plus one-half of one per cent a month from the period of the last dividend on such Federal Reserve bank stock, whereupon the appropriate certificate of stock shall be issued by the Federal Reserve bank. The remaining one-half of such additional subscription shall be subject to call when deemed necessary by the Board of Governors

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"of the Federal Reserve System. After an application for the cancellation of Federal Reserve bank stock has been approved by the Federal Reserve Agent, the Federal Reserve bank shall accept and cancel the stock which the applying bank is required to surrender and shall pay to the member bank a sum equal to all cash paid subscriptions made on the stock canceled with one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof. In the case of any mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in the Federal Reserve bank and has a deposit with the Federal Reserve bank in lieu of such subscription, such deposit shall be adjusted in the same manner as subscriptions for stock.

"SECTION 5. CONSOLIDATION OF MEMBER BANKS

"Whenever two or more member banks consolidate and such consolidation results in the consolidated bank acquiring by operation of law⁸

⁸Section 5 of the Federal Reserve Act provides that 'Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated.' This provision prevents a transfer of Federal Reserve bank stock by purchase, but does not prevent a transfer by operation of law. When there is a merger of member banks involving the liquidation of one of such banks and the purchase of the assets of the liquidating bank by the bank continuing in existence, or where one member bank purchases all or a substantial portion of the assets of another member bank, the latter being put into liquidation, it is necessary for the liquidating bank to surrender its Federal Reserve bank stock and for the purchasing bank, if its capital and surplus is increased or decreased, to adjust its holdings of Federal Reserve bank stock as provided in section 3 of this regulation.

"If member banks consolidate, under a statute which does not require the liquidation of any of the consolidating banks, and the assets and obligations of the consolidating banks are transferred to the consolidated bank by operation of law, the consolidated bank becomes the owner of the Federal Reserve bank stock of the consolidating banks as soon as the consolidation takes effect and such stock need not be surrendered. A consolidation under the act of Congress entitled 'An act to provide for the consolidation of national banking associations,' approved Nov. 7, 1918, as amended, meets all of these conditions.

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"the Federal Reserve bank stock owned by the other consolidating bank or banks, and which also results in the consolidated bank having an aggregate capital and surplus in excess of, or less than, the aggregate capital and surplus of the consolidating member banks, such consolidated bank shall file with the Federal Reserve Agent at the Federal Reserve bank of its district an application on Form 56 for such additional amount, or for the cancelation of such amount, as the case may be, of the capital stock of the Federal Reserve bank of its district as may be necessary to make its total subscription to the stock of the Federal Reserve bank equal to six per cent of its combined capital and surplus, as provided in section 3 of this regulation. In the case of any such consolidation the consolidated bank shall surrender to the Federal Reserve bank the certificates of Federal Reserve bank stock held by the consolidated bank and a new certificate will be issued as provided in section 11.

"SECTION 6. INSOLVENCY OF MEMBER BANK

"Whenever a member bank shall be declared insolvent and a receiver⁹ appointed by the proper authorities, such receiver shall, within three months from the date of his appointment, file with the Federal Reserve Agent at the Federal Reserve bank of the district an application on Form 87 for the cancelation of the stock held by such insolvent member bank and for the refund of all balances due to it. If the receiver shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the board of directors of the Federal Reserve bank with a recommendation as to the action to be taken, whereupon the board of directors of the Federal Reserve bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant the receiver additional time in which to file an application. Upon approval of such an application by the Federal Reserve Agent, or upon the issuance of such an order, the Federal Reserve bank shall cancel such stock and shall adjust accounts between the member bank and the Federal Reserve bank by applying to any indebtedness of the insolvent member bank to such Federal Reserve bank all cash paid subscriptions made on the stock canceled with one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

⁹The term 'receiver' includes any person, commission or other agency charged by law with the duty of winding up the affairs of the bank.

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"SECTION 7. VOLUNTARY LIQUIDATION OF MEMBER BANK

"Whenever a member bank goes into voluntary liquidation, the liquidating agent or some other person or persons duly authorized by the stockholders or board of directors to act on behalf of such bank shall, within three months from the date of the vote to place such bank in voluntary liquidation, file with the Federal Reserve Agent at the Federal Reserve bank of the district an application on Form 86 for the cancelation of the stock held by it and for the refund of all balances due to such liquidating member bank. If such application be not filed within the time specified, the Federal Reserve Agent shall report the facts to the board of directors of the Federal Reserve bank with a recommendation as to the action to be taken, whereupon the board of directors of the Federal Reserve bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant additional time in which to file an application. Upon approval of such an application by the Federal Reserve Agent, or upon the issuance of such an order, the Federal Reserve bank shall cancel such stock and shall adjust accounts between the liquidating member bank and the Federal Reserve bank by applying to any indebtedness of the liquidating member bank to such Federal Reserve bank all cash paid subscriptions made on the stock canceled with one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized agent of such liquidating member bank.

"Section 8. OTHER CLOSED NATIONAL BANKS

"Whenever a national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes of the United States, as amended, and for which a receiver has not been appointed, shall discontinue its banking operations for a period of sixty days, the Federal Reserve Agent shall report the facts to the Comptroller of the Currency with a statement of his reasons as to whether a receiver should be appointed for the national bank. If such receiver be appointed, the Federal Reserve bank stock held by the national bank shall be canceled in the manner described in section 6 of this regulation. Whenever a national bank has been placed in the hands of a conservator, the Federal Reserve bank stock held by such bank may be canceled upon submission of an application by the conservator in the same manner as provided in section 6 of this regulation; provided a certificate is furnished by the Comptroller of the Currency to the effect that the conservator has been authorized to apply for the cancelation of Federal Reserve bank stock, and that the bank is to be liquidated and is not to be permitted to resume business or to reorganize.

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"SECTION 9. OTHER CLOSED STATE MEMBER BANKS

"Whenever a State member bank, as defined in the Board's Regulation H, shall cease to exercise banking functions without being placed in liquidation in accordance with the laws of the State in which it is located and without a receiver¹⁰ having been appointed for it and such bank has not within sixty days of the cessation of banking functions applied for withdrawal from membership in the Federal Reserve System as provided in the Board's Regulation H, the Federal Reserve Agent at the Federal Reserve bank of the district in which such State member bank is located shall furnish the Board of Governors of the Federal Reserve System with full information with reference to the facts involved in the case and with a definite recommendation as to whether the Board should require the State member bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System. Upon receipt of this advice, if termination of the membership of the State member bank appears desirable, the Board will give the member bank notice of the date upon which a hearing will be held to determine whether its membership should be forfeited. If, after such hearing, the membership of a State member bank be forfeited, the Board will direct the Federal Reserve bank of the Federal Reserve district in which the member bank is located to cancel the Federal Reserve bank stock it holds and make appropriate refund thereon.

"SECTION 10. VOLUNTARY WITHDRAWALS FROM MEMBERSHIP

"Any State member bank desiring to withdraw from membership in the Federal Reserve System shall follow the procedure set forth in Regulation H, and when all applicable requirements of that regulation have been complied with the Federal Reserve bank shall cancel the stock held by the member bank and make appropriate refund thereon.

**"SECTION 11. CANCELLATION OF OLD AND ISSUE OF NEW STOCK
CERTIFICATES**

"Whenever a member bank changes its name it shall surrender to the Federal Reserve bank the certificate of Federal Reserve bank stock which was issued to it under its old name. If the Federal Reserve bank has or is furnished with proper proof of the change of name, it shall cancel the certificate so surrendered and shall issue

¹⁰The term 'receiver' includes any person, commission or other agency charged by law with the duty of winding up the affairs of the bank.

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"in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered. If a member bank has filed an application for an increase or a decrease in its holdings of Federal Reserve bank stock pursuant to the provisions of section 3 of this regulation, or has acquired the Federal Reserve bank stock from another bank by virtue of a consolidation of the kind described in section 5 of this regulation, it shall surrender the stock certificate previously issued to it and the certificate representing any stock so acquired, and the Federal Reserve bank shall issue a new certificate for the number of shares represented by the surrendered certificate or certificates decreased by the number of shares canceled or increased by the number of additional shares to be issued.

"SECTION 12. BOARD FORMS

"All forms referred to in this regulation and all such forms as they may be amended from time to time shall be a part of this regulation."

The proposed letter to the Federal reserve agents at all Federal reserve banks containing instructions relating to the checking and handling of applications for the issuance and cancelation of Federal reserve bank stock was approved unanimously in the following form:

"In connection with the revised procedure of handling applications for the issuance and cancelation of Federal Reserve bank stock as contemplated by Regulation I, Revised, Effective January 1, 1936, such applications should no longer be sent to the Board for approval, and Federal Reserve bank stock may be issued and canceled by Federal Reserve banks as soon as the appropriate applications are found to be in proper form and are approved by the Federal Reserve Agent, except in the case of applications of State banks for admission to membership or notices of intention to withdraw from membership. For guidance in this connection, the following instructions are set forth covering the principal points to be kept in mind in the checking and handling of applications and related matters.

"1. Care should be exercised to see that all such applications are properly executed by persons duly authorized, that the figures of capital and surplus appear to be correct according to available data, that the number of shares of Federal Reserve bank stock which the applying bank is required to hold, subscribe for or surrender has been correctly computed, and that the application conforms in all respects to the provisions of the law and the Board's regulations and rulings. The capital and surplus of national banks as shown in applications should be checked against the notices received from the Comptroller's office and against condition reports. The capital structure in the case of State member banks, and total deposit liabilities in the case of mutual savings banks, should be checked against reports of condition and other available data.

"2. If there be any doubt whether an application is properly executed, or as to the number of shares of Federal Reserve bank stock

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"which the applying bank is required to hold, subscribe for or surrender, the matter should be taken up with counsel for the Federal Reserve bank and, if necessary, the question should be referred to the Board.

"3. In connection with the organization of national banks, the Comptroller of the Currency should be advised direct by telegraph by the Federal Reserve Agent as soon as an application for the issuance of Federal Reserve bank stock has been found to be in proper form and the required payment has been received on the bank's subscription to Federal Reserve bank stock. This advice should be given by using the new code word 'NARRATEMENT', the meaning of which will be as follows:

'Application for Federal Reserve bank stock to be issued to the organizing national bank hereafter named has been found to be in proper form and approved by the Federal Reserve Agent, the required payment has been received on the applicant's subscription for the number of shares of Federal Reserve bank stock hereafter shown, and such stock will be issued to the organizing national bank as of the date on which it is authorized by your office to commence business: (name and location of organizing national bank, and number of shares of Federal Reserve bank stock applied for).'

"Upon the issuance of Federal Reserve bank stock to a newly organized national bank, the Board should be advised thereof by telegraph by the Federal Reserve Agent, using the new code word 'NARRATE-MILL', the meaning of which will be as follows:

'Federal Reserve bank stock has been issued as of the date hereafter shown to the following newly organized national bank: (give date of the stock certificate and name and location of organizing national bank).'

"4. Upon cancelation of a member bank's entire holdings of Federal Reserve bank stock and cessation of its membership, the Board should be advised by telegraph by the Federal Reserve Agent, using, as at present, code word 'NAVIFORM', the meaning of which will hereafter be as follows:

'Refund of capital stock payments was made on the date hereafter shown on account of cessation of membership of the following named bank: (date of cancelation of Federal Reserve bank stock and name and location of the bank).'

"5. Whenever a State member bank has been placed in the hands of a conservator or other State official acting in a capacity similar to that of conservator, it may wish to file a notice of intention to voluntarily withdraw from membership in the Federal Reserve System in the manner provided in section 9 of the Federal Reserve Act, as amended, and the Board's Regulation H, and request the Board to permit withdrawal immediately, waiving the six months' notice. In any such case the conservator must join in such notice of intention to withdraw and request for waiver. Upon receipt of advice that you have received such notice and request for waiver and that your counsel is satisfied as to the legal aspects of such notice and request for waiver, together with your recommendation in the matter, the Board will take action as soon as possible.

"6. As soon as practicable after February 1 and August 1, respectively, of each year, each member bank's required holdings

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"of Federal Reserve bank stock should be computed by the Federal Reserve Agent on the basis of its latest condition report. If the computation shows that its holdings of Federal Reserve bank stock are either greater or less than the amount required by law, the bank should be requested to file an application for an adjustment in its holdings of Federal Reserve bank stock. More frequent adjustments may be required in the event of substantial changes in a member bank's capital and surplus. Adjustments at the request of a member bank may, of course, be made at any time that it changes the amount of its aggregate capital and surplus.

"7. It will no longer be necessary to furnish the Comptroller of the Currency semi-annual certificates of increases and decreases of Federal Reserve bank stock on Forms 58 and 59. In lieu thereof, please furnish a report to the Board as of the end of June and December of each year showing the following information:

- | | | | |
|--|--|-----------------------|--------------------|
| 1. Number of shares of Federal Reserve bank stock outstanding at beginning of the semi-annual period | | | ===== |
| 2. Number of shares issued during the period to | | | |
| (a) New member banks | | | _____ |
| (b) Existing member banks | | | _____ |
| (c) Total issued | | | ===== |
| 3. Number of shares of Federal Reserve bank stock canceled during the period on account of | | | |
| (a) Cessations of membership | | | _____ |
| (b) Surrender of stock by continuing member banks | | | _____ |
| (c) Total canceled | | | ===== |
| 4. Number of shares of Federal Reserve bank stock outstanding at end of semi-annual period | | | _____ |
| 5. Number of member banks at end of semi-annual period | | | |
| | | <u>National banks</u> | <u>State banks</u> |
| (a) Active | | _____ | _____ |
| (b) Inactive (banking operations discontinued) | | _____ | _____ |

"In connection with items 2(a) and 3(a) above, please attach a list showing the name and location of each bank, number of shares issued or canceled, and date issued or canceled. The figures reported against items 2(b) and 3(b) should represent the number of shares of stock issued and canceled, respectively, pursuant to applications on Forms 56 and 56a; they should not include stock certificates issued in exchange for stock certificates canceled. In support of item 5b, please show the name and location of each bank, the date on which banking operations were discontinued, the date placed in liquidation or in the hands of a receiver, if this has

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"been done, and the status of the application for cancelation of Federal Reserve bank stock if filed."

At this point Mr. Cherry left the room, and Mr. Vest, Assistant General Counsel, Mr. DuBois, Assistant Counsel, and Mr. Owens, Assistant Counsel, joined the meeting.

Reference was made to the draft of Regulation "Q", Payment of Interest on Deposits, which had been prepared by the staff and revised following the receipt of comments and suggestions of the Federal reserve banks and others, and which had been discussed in the revised form at an informal conference of some of the members of the Board and the staff. Mr. Wyatt outlined the controversial points in the regulation which had been given special consideration at the conference above referred to, as set forth in a memorandum dated November 7, 1935, from Mr. Owens, and called attention particularly to certain amendments which had been suggested.

Mr. Wyatt also submitted a proposed modification of section 3 of the proposed regulation which would make possible changes from time to time in the maximum rates of interest on time and savings deposits, through the issuance of supplements, without amending the regulation. In this connection he submitted a draft of a supplement to Regulation "Q" prescribing maximum rates of interest payable by member banks on time and savings deposits. During a discussion of the maximum rates of interest to be prescribed by the Board, Chairman Eccles suggested that the Board would be justified in fixing a maximum rate of 2 1/2%

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on time deposits having maturities of six months or more, a maximum rate of 2% on time deposits having maturities of ninety days and up to six months, and a maximum rate of 1% on time deposits having maturities up to ninety days.

In connection with the definition of "interest", Mr. Clayton raised the question whether the regulation prohibited the furnishing by member banks to their customers of small coin banks or the printing of checks for customers. Mr. Owens stated that he felt that the regulation could be interpreted so as not to prohibit actions of this character by member banks and that these matters had not been covered specifically in the regulation for the reason that it was felt that they could be handled more satisfactorily by rulings by the Board.

At the conclusion of the discussion, upon motion by Mr. Szymczak, Regulation "Q" was approved and adopted unanimously in the following form, to become effective on January 1, 1936:

"REGULATION Q

Revised effective January 1, 1936.

(Superseding Regulation Q, Series of 1935)

"PAYMENT OF INTEREST ON DEPOSITS

"AUTHORITY FOR AND SCOPE OF REGULATION

"This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

"This regulation relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Regulation D.

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"The provisions of this regulation do not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

"SECTION 1. DEFINITIONS

"(a) Demand deposits. - The term 'any deposit which is payable on demand', hereinafter referred to as a 'demand deposit', includes every deposit which is not a 'time deposit' or 'savings deposit', as defined below.

"(b) Time deposits. - The term 'time deposits' means 'time certificates of deposit' and 'time deposits, open account', as defined below.

"(c) Time certificates of deposit. - The term 'time certificate of deposit' means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order --

"(1) On a certain date, specified in the instrument, not less than 30 days after the date of the deposit, or

"(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

"(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,¹ and

"(4) In all cases only upon presentation and surrender of the instrument.

"(d) Time deposits, open account. - The term 'time deposit, open account' means a deposit, other than a 'time certificate of deposit' or a 'savings deposit', with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor

¹A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a 'time certificate of deposit' within the meaning of the above definition.

²Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute 'time deposits, open account' even though some of the deposits are made within 30 days from the end of such period.

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"in writing not less than 30 days in advance of withdrawal.³

"(e) Savings deposits. - The term 'savings deposit' means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit,⁴ or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, and in respect to which deposit --

"(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made;

"(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor.⁵

"The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the

³A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a 'time deposit, open account', within the meaning of the above definition.

⁴Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

⁵Presentation of a pass book may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of paragraph (2) above as to the person to whom such payment may be made.

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"pass book within the meaning of this regulation except where the pass book is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the pass book is held by the bank as security for a loan. If a pass book is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the pass book in order to make a withdrawal, although the bank may deliver the pass book to a duly authorized agent of the depositor for transmittal to the depositor.

"Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made.

"(f) Interest. - The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed.

"SECTION 2. DEMAND DEPOSITS

"(a) Interest prohibited. - Except as hereinafter provided, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand

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"deposit.

"(b) Exceptions. - The prohibition stated in subsection (a) above does not apply to -

"(1) Payment of interest accruing before August 24, 1937, on any deposit made by a savings bank as defined in section 12B of the Federal Reserve Act, as amended,⁶ or by a mutual savings bank;

"(2) Payment of interest accruing before August 24, 1937, on any deposit of public funds⁷ made by or on behalf of any State, county, school district, or other subdivision or municipality, or on any deposit of trust funds, if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law when such deposits are made in State banks;

"(3) Payment of interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before June 16, 1933 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date, and which may not legally be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract may be renewed or extended unless it be modified to eliminate any provision for the payment of interest on demand deposits, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to eliminate from any such certificate of deposit or other contract any provision for the payment of interest on demand deposits.

"SECTION 3. MAXIMUM RATE OF INTEREST ON TIME AND SAVINGS DEPOSITS

"(a) Maximum rate prescribed from time to time. - Except in accordance with the provisions of this regulation, no member bank shall pay interest on any time deposit or savings deposit in any manner, directly or indirectly, or by any method, practice, or device whatsoever. No member bank shall pay interest on any time deposit or savings deposit at a rate in excess of such applicable maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time; and any rate or rates which may

⁶Section 12B(c) (7) of the Federal Reserve Act which defines the term 'savings bank' is quoted in the Appendix hereto (page).

⁷Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of 'public funds', within the meaning of the above provision.

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"be so prescribed by the Board will be set forth in supplements to this regulation, which will be issued in advance of the date upon which such rate or rates become effective.

"(b) Modification of contracts to conform to regulation. -

No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this regulation.

"(c) Member banks limited to maximum rate for State banks. -

The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (i) the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section, or (ii) the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

"(d) Savings deposits received during first five days of month. -

A member bank may pay interest on a savings deposit received during the first five days of any calendar month at the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this regulation, whichever shall first occur.

"(e) Continuance of time deposit status. - A deposit which was a time deposit at the date of deposit continues to be such until maturity although it has become payable within 30 days, and interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid until maturity upon such deposit. A time deposit or a savings deposit with respect to which notice of withdrawal has been given continues to be such until the expiration of the period of such notice, and interest may be paid upon such deposit until the expiration of the period of such notice at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid upon savings deposits with respect to which notice of intended withdrawal has not actually been required or given. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within 30 days from the date on which such amount is deposited in such bank.⁸

⁸Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute 'time deposits, open account' even though some of the deposits are made within 30 days from the end of such period.

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"(f) No interest after maturity or expiration of notice. - After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

"SECTION 4. PAYMENT OF TIME DEPOSITS BEFORE MATURITY

"(a) Time deposits payable on a specified date. - No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in subsection (d) of this section.

"(b) Time deposits payable after a specified period. - No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in subsection (d) of this section.

"(c) Time deposits payable after a specified notice. - No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in subsection (d) of this section.

"(d) Payment in emergencies. - In an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency, provided that before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than three months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit three months or longer, and

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"shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than three months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date and maturity as the original deposit.

"(e) Loans upon security of time deposits. - A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit.

"SECTION 5. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS

"(a) Requirements regarding notice. - A member bank shall observe the requirements set forth below in requiring notice of intended withdrawal of any savings deposit, or in waiving such notice, or in repaying any savings deposit, or part thereof, without requiring such notice, whether such notice of intended withdrawal is required to be given in each case by the terms of the bank's contract with the depositor or may, under such contract, be required by the bank at any time at its option.

"(1) If a member bank waive such notice of intended withdrawal as to any amount or percentage of the savings deposits of any depositor, it shall waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

"(2) If a member bank pay any amount or percentage of the savings deposits of any depositor, without requiring such notice, it shall, upon request and without requiring such notice, pay the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

"(3) If a member bank require such notice before the payment of any amount or percentage of the savings deposits of any depositor, it shall require such notice before the payment of the same amount or percentage of the savings deposits of any other depositor which are subject to the same requirement.

"A member bank is not prevented from paying during the next succeeding interest period, without requiring notice of withdrawal, interest on a savings deposit which has accrued during the preceding interest period, provided that it shall, upon request and without requiring such notice, pay in the same manner interest which has

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"accrued during the preceding interest period on the savings deposits of every other depositor.

"(b) Requirements regarding change of practice. - No member bank shall change its practice with respect to the requiring or waiving of notice of intended withdrawal of savings deposits except after duly recorded action of its board of directors or of its executive committee properly authorized, and no practice in this respect shall be adopted which does not conform to the requirements of paragraphs (1), (2), or (3) of subsection (a) of this section.

"(c) Change of practice for purpose of discrimination. - No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits shall be made for the purpose of discriminating in favor of or against any particular depositor or depositors.

"(d) Requirements applicable although no interest paid. - A member bank shall observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits.

"(e) Loans upon security of savings deposits. - If it is not the practice of a member bank to require notice of intended withdrawal of savings deposits, no restrictions are imposed by this regulation upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of intended withdrawal of savings deposits or any amount or percentage thereof, such bank may make loans to its depositors upon the security of such deposits and, in each such case, the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the savings deposit."

Upon motion by Mr. Szymczak, the following supplement to Regulation "Q" was approved and adopted unanimously, to become effective as of January 1, 1936:

"SUPPLEMENT TO REGULATION Q

"ISSUED BY THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

"Effective January 1, 1936.

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"Maximum rates of interest payable on time and savings deposits by member banks of the Federal Reserve System

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 3 of its Regulation Q, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates¹ of interest payable by member banks of the Federal Reserve System on time and savings deposits:

"(1) Maximum rate of 2-1/2 per cent. - No member bank shall pay interest accruing after January 31, 1935, at a rate in excess of 2-1/2 per cent per annum, compounded quarterly,² regardless of the basis upon which such interest may be computed,-

"(A) On any savings deposit,

"(B) On any time deposit having a maturity date six months or more after the date of deposit or payable upon written notice of six months or more,

"(C) On any Postal Savings deposit which constitutes a time deposit,

except that a member bank may pay interest on any such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 18, 1934 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

"(2) Maximum rate of 2 per cent. - No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 2 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed,-

"(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than six months and not less than 90 days after the date of deposit or payable upon written notice of less than six months and not less than 90 days,

except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member),

¹The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

²This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

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"which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

"(3) Maximum rate of 1 per cent. - No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 1 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed, -

"(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days, except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability."

Chairman Eccles stated that he had discussed with Mr. Wyatt and Mr. Smead the draft of Regulation "A", Advances to and Discounts for Member Banks by Federal Reserve Banks, that he had certain suggestions to make with regard to the form of the regulation, and that, as there was no immediate necessity for the issuance of the amended regulation, he felt that action thereon might be deferred until he had an opportunity to present the changes which he desired to suggest to the Board for discussion.

Consideration was then given to the draft of Regulation "D", Reserves of Member Banks, which had been prepared by the staff and revised following receipt of comments and suggestions from the Federal reserve banks and others and which had been discussed in the revised form at an informal conference of members of the Board and the staff as set forth in a memorandum dated November 19, 1935, from Mr. DuBois.

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During the ensuing discussion reference was made particularly to the question whether the Board should reverse its old ruling that a member bank need not include, in its gross demand deposits, deposits payable at its foreign branches, for the purpose of computing required reserves. Mr. Hamlin said that he would favor adherence by the Board to the old ruling, and some of the other members indicated their concurrence. It was stated, in this connection, that a decision on this matter would not require a change in the text of Regulation "D".

Upon motion by Mr. James, Regulation "D" was approved and adopted unanimously in the following form, to become effective as of January 1, 1936:

"REGULATION D

"Revised effective January 1, 1936
(Superseding Regulation D, Series of 1930)

"RESERVES OF MEMBER BANKS

"AUTHORITY FOR REGULATION

"This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

"SECTION 1. DEFINITIONS

"(a) Demand deposits. - The term 'demand deposits' includes all deposits except 'time deposits' as defined below.

"(b) Time deposits. - The term 'time deposits' means 'time certificates of deposit', 'time deposits, open account' and 'savings deposits', as defined below.

"(c) Time certificates of deposit. - The term 'time certificate of deposit' means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order -

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"(1) On a certain date, specified in the instrument, not less than thirty days after the date of the deposit, or

"(2) At the expiration of a certain specified time not less than thirty days after the date of the instrument, or

"(3) Upon notice in writing which is actually required to be given not less than thirty days before the date of repayment,¹ and

"(4) In all cases only upon presentation and surrender of the instrument.

"(d) Time deposits, open account. - The term 'time deposit, open account' means a deposit, other than a 'time certificate of deposit' or a 'savings deposit', with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than thirty days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor in writing not less than thirty days in advance of withdrawal.³

"(e) Savings deposits. - The term 'savings deposit' means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar

"¹A deposit with respect to which the bank merely reserves the right to require notice of not less than thirty days before any withdrawal is made is not a 'time certificate of deposit' within the meaning of the above definition.

"²Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months constitute 'time deposits, open account' even though some of the deposits are made within thirty days from the end of such period.

"³A deposit with respect to which the bank merely reserves the right to require notice of not less than thirty days before any withdrawal is made is not a 'time deposit, open account', within the meaning of the above definition.

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"purposes and not operated for profit,⁴ or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, and in respect to which deposit -

"(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than thirty days before such withdrawal is made;

"(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor.⁵

"The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this regulation except where the pass book is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the pass book is held by the bank as security for a loan. If a pass book is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the pass book in order to make a withdrawal, although the bank may deliver the pass book to a duly authorized agent of the depositor for transmittal to the depositor.

"Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made.

⁴Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

⁵Presentation of a pass book may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of paragraph (2) above as to the person to whom such payment may be made.

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"(f) Gross demand deposits. - The term 'gross demand deposits' means the sum of all demand deposits, including demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers' checks (including checks issued by the bank in payment of dividends), letters of credit and travelers' checks sold for cash, and drafts drawn upon or other authorizations to charge the member bank's reserve account at the Federal Reserve bank.

"(g) Cash items in process of collection. - The term 'cash items in process of collection' means -

"(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

"(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

"(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

"Items handled as non-cash collections may not be treated as 'cash items in process of collection' within the meaning of this regulation.

"(h) Net demand deposits. - The term 'net demand deposits' means gross demand deposits as defined in subsection (f) of this section less the deductions allowed under the provisions of subsection (b) of section 2 of this regulation.

"SECTION 2. COMPUTATION OF RESERVES

"(a) Amounts of reserves to be maintained. - Every member bank of the Federal Reserve System is required by law to maintain on deposit with the Federal Reserve bank of its district an actual net balance equal to three percent of its time deposits plus -

"Seven percent of its net demand deposits if not in a reserve or central reserve city.

"Ten percent of its net demand deposits if in a reserve city, except that if located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain seven percent reserves against its net demand deposits.

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"Thirteen percent of its net demand deposits if located in a central reserve city, except that if located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain seven percent or ten percent reserves against its net demand deposits.

"Notwithstanding any other provision of this regulation, the actual net balance which each member bank is required to maintain on deposit with the Federal Reserve bank of its district in accordance with the foregoing shall be changed by such percentage, within the limitations prescribed by law,⁶ as the Board of Governors of the Federal Reserve System shall prescribe from time to time pursuant to the sixth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, in order to prevent injurious credit expansion or contraction.

"(b) Deductions allowed in computing reserves. - In determining the reserve balances required under the terms of this regulation, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in subsection (g) of section 1 of this regulation. Balances 'due from other banks' do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks. The word 'banks' in the term 'due from other banks' refers to incorporated banks and does not include private banks or bankers.⁷

"(c) Availability of cash items as reserve. - Cash items forwarded to a Federal Reserve bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve bank until the expiration of

⁶The amount of the reserves required to be maintained by any such member bank as a result of any such change may not be less than the amount of the reserves specified above nor more than twice such amount.

⁷A member bank exercising fiduciary powers may not include in balances 'due from other banks' amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances 'due from other banks', subject to the provisions of subsection (b) above.

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"such time as may be specified in the appropriate time schedule referred to in Regulation J. If a member bank draw against checks before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this regulation.

"(d) Reserves against trust funds. - A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of section 11(k) of the Federal Reserve Act, a deposit liability thereby arises against which reserves must be maintained.

"(e) Continuance of 'time deposit' status. - A deposit which at the time of deposit was a 'deposit evidenced by a time certificate of deposit', 'time deposit, open account', or 'savings deposit' continues to be a 'time deposit' until maturity or the expiration of the period of notice of withdrawal, although it has become payable within thirty days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after the date upon which such advice is received by the bank.

"SECTION 3. DEFICIENCIES IN RESERVES

"(a) Computation of Deficiencies.

"(1) Deficiencies in reserve balances of member banks in cities where Federal Reserve banks or branches thereof are located and in such other reserve cities as the Board of Governors of the Federal Reserve System may designate from time to time shall be computed on the basis of average daily net deposit balances covering semiweekly periods. Deficiencies in reserve balances of member banks in all other reserve cities shall be computed on the basis of average daily net deposit balances covering weekly periods. Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances covering

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"semimonthly periods.⁸

"(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances at the opening of business on the same day; and the semiweekly, weekly, and semi-monthly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System.

"(b) Penalties.

"(1) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding calendar month.

"(2) Such penalties will be assessed at a rate of two per cent per annum above the Federal Reserve bank rate applicable to discounts of ninety day commercial paper for member banks, in effect on the first day of the calendar month in which the deficiencies occurred.

"(c) Notice to directors of banks deficient in reserves. -

Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this regulation regarding the maintenance of reserves and the personal liability of the directors permitting violations of the laws.

"(d) Continued deficiencies. - If, after the notice provided for in subsection (c) of this section 3 has been given, it shall appear that the member bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should -

"(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act; or

"(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act; or

⁸ Deficiencies in reserve balances of member banks in outlying sections of central reserve and reserve cities which have been authorized by the Board of Governors of the Federal Reserve System, under the provisions of subsection (a) of section 2 of this regulation, to maintain seven per cent reserves against demand deposits, will also be computed on the basis of average daily net deposit balances covering semimonthly periods.

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"(3) In either case, take such other action as the Federal Reserve bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

"SECTION 4. LOANS AND DIVIDENDS WHILE RESERVES ARE DEFICIENT

"It is unlawful for any member bank the reserves of which are deficient to make any new loans or pay any dividends unless and until the total reserves required by law are fully restored, and the payment of penalties for deficiencies in reserves does not exempt member banks from this prohibition of law. As provided in section 3 of this regulation, penalties for deficiencies in reserves are computed on the basis of the average reserve balances for semiweekly, weekly, or semimonthly periods; but this prohibition of law applies whenever the reserves are deficient for one day or more, regardless of whether or not the average reserve balances for the semiweekly, weekly, or semimonthly period are deficient."

Mr. Morrill raised the question as to the procedure to be followed in sending the revised regulations to the Federal reserve banks. It was agreed that copies of the regulations should be placed in the hands of the member banks as promptly as possible, and that for this purpose mimeographed copies of the regulations should be sent to the Federal reserve banks as soon as possible with the request that they have a sufficient number of copies printed and distributed to member banks, pending the receipt of the official printed copies.

At this point Messrs. Wyatt, Goldenweiser, Smead, Vest, DuBois and Owens left the meeting and the Board acted upon the following matters:

Letter to Mr. Peyton, Chairman of the Federal Reserve Bank of

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Minneapolis, stating that the Board approves the establishment without change by the bank on November 23, 1935, of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"This refers correspondence regarding Regulation No. 1 of Banking Advisory Board of State of New Jersey prescribing maximum rate of 2 per cent per annum which may be paid by banks, trust companies, or savings banks in that State on time or savings deposits after January 1, 1936. In view of provisions of section 24 of Federal Reserve Act and of regulation of Banking Advisory Board, it is opinion of Board of Governors that rate of interest accruing after January 1, 1936 and during the period the regulation is legally in effect, which a national bank or other member bank located in New Jersey may lawfully pay on time or savings deposits, may not exceed the rate of 2 per cent per annum prescribed in the regulation. It is believed desirable that notice to this effect be given by you without delay to all member banks in your district located in the State of New Jersey calling attention to the applicable provisions of section 24 of the Federal Reserve Act and to subsection (c)(3) of Section III and subsection (c)(3) of Section V of Regulation Q, as well as to the provisions of regulation of Banking Advisory Board. The Board of Governors will not object to 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 notice from you of the limitations effective after January 1, 1936, 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. Please furnish Board two copies of any notification which you may send to member banks in New Jersey in this connection."

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Approved unanimously, together with a similar telegram to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, and a letter to Mr. O'Connor, Comptroller of the Currency, inclosing a copy of the regulation of the Banking Advisory Board of the State of New Jersey and a copy of the telegram to Mr. Case.

Memorandum dated November 19, 1935, from Mr. Smead, Chief of the Division of Bank Operations, stating that Regulation "O", Regulation for the Guidance of Federal Reserve agents in the matter of issuance and retirement of Federal Reserve notes, had not been reissued since it was adopted in 1915; that many of the provisions of the regulation were now obsolete; that the regulation covered the Board's instructions to the Federal Reserve agents with respect to the issuance and retirement of Federal Reserve notes and did not contain any provisions applicable to operations of member banks or to the relations of the Federal Reserve banks to member banks and the public; and that, therefore, it was felt that Regulation "O", series 1915, should be revoked and a letter, containing such instructions as are necessary, sent to all Federal Reserve agents with respect to the issuance and retirement of Federal Reserve notes. The memorandum submitted a draft of letter to the Federal Reserve agents in accordance with Mr. Smead's suggestion and stated that if the proposed procedure were adopted, the letter "O" might be used to designate the new regulation on loans to executive officers by member banks.

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The letter was approved unanimously as follows and it was agreed that the new regulation on loans to executive officers should be designated Regulation "O":

"Regulation "O", series of 1915, as amended, entitled 'Regulations for the guidance of Federal Reserve Agents in the matter of issuance and redemption of Federal Reserve notes', is hereby revoked as of the close of December 2, 1935, and revised instructions on this subject, effective at that time follow.

"Early in May of each year the Board will furnish to each Federal Reserve agent a statement showing the stock by denominations of Federal Reserve notes of his Federal Reserve bank at the Bureau of Engraving and Printing, the amount by denominations of such notes in process of printing, and an estimate of the amount of Federal Reserve notes that should be printed during each of the next two fiscal years. Upon receipt of the Federal Reserve agents' recommendations with respect to such estimates, the Board will place a printing order with the Comptroller of the Currency for such amount of each denomination of Federal Reserve notes as is regarded necessary to meet estimated requirements for the following fiscal year, and will also advise the Bureau of Engraving and Printing of the probable requirements for such notes for the succeeding fiscal year.

"Requests for the shipment of Federal Reserve notes from Washington shall be submitted to the Board on Form 45 or by telegram confirmed by written request on such form. Requests for the shipment of Federal Reserve notes shall be signed by the Federal Reserve agent or by an Assistant Federal Reserve agent.

"Federal Reserve notes may be issued to the Federal Reserve bank by the Federal Reserve agent on written application signed by an officer of the Federal Reserve bank, authorized by the Board of Directors or the Executive Committee to sign such application, provided collateral eligible, under the provisions of the Federal Reserve Act, as security for Federal Reserve notes is pledged with the Federal Reserve agent by the Federal Reserve bank in an amount at least equal to the amount of Federal Reserve notes issued to the bank.

"The Federal Reserve agent, acting for the Board of Governors of the Federal Reserve System, may at any time call upon the Federal Reserve bank for additional collateral to protect the Federal Reserve notes issued to such bank. The Federal Reserve Agent may permit the Federal Reserve bank to make substitutions in collateral held by him as security for Federal Reserve notes provided the amount of the collateral so substituted is at least equal to the

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"amount of the collateral withdrawn. If at any time the amount of collateral held by the Federal Reserve agent as security for Federal Reserve notes is in excess of the amount of such notes outstanding, the Federal Reserve agent may permit the Federal Reserve bank to withdraw such excess collateral or any portion of such excess.

"Federal Reserve notes unfit for further circulation received by a Federal Reserve bank shall be canceled and cut longitudinally by the Federal Reserve bank and the uppers and lowers forwarded on separate days to the Treasurer of the United States. The amount of unfit notes of each other Federal Reserve bank forwarded to the Treasurer of the United States should be telegraphed to the Board, code CHRISTIAN, for credit in the Interdistrict Settlement Fund.

"Each Federal Reserve agent shall authorize the Treasurer of the United States by power of attorney to turn over to the Comptroller of the Currency for destruction all unfit Federal Reserve notes of the Federal Reserve bank to which such Federal Reserve agent is accredited which are received by the Treasurer of the United States for the account of such Federal Reserve agent.

"Fit notes of other Federal Reserve banks shall be forwarded promptly to the bank through which they were issued, and on the date of shipment the amount of such notes of each Federal Reserve bank shall be telegraphed to the Board, code CHEMICALLY, for credit in the Interdistrict Settlement Fund.

"The Federal Reserve Act requires that a gold certificate reserve be maintained against Federal Reserve notes equal to not less than 40 percent of the amount of such notes in actual circulation. If at any time the gold certificate reserve required by law to be held by a Federal Reserve bank against Federal Reserve notes in actual circulation falls below forty percent, the Federal Reserve agent shall at once notify the Board of Governors of the Federal Reserve System, and thereupon, until otherwise directed by the Board of Governors of the Federal Reserve System, a graduated tax upon such deficiency as provided in Section 11(c) of the Federal Reserve Act shall be established and shall be computed as follows:

"When such reserve falls below forty percent, but is not less than thirty-two and one-half percent, the tax upon the deficiency shall be at the rate of one-tenth of one percent per annum;

"When such reserve falls below thirty-two and one-half percent, but is not less than thirty percent, the tax upon the entire deficiency below forty percent shall be at the rate of one and six-tenths percent per annum;

"When such reserve falls below thirty percent, but is not less than twenty-seven and one-half percent, the tax upon the entire

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"deficiency below forty percent shall be at the rate of three and one-tenth percent per annum; and so on, increasing the tax at the rate of one and one-half percent per annum with each further deficiency in reserves amounting to two and one-half percent, or any fraction thereof.

"As at close of business each day the Federal Reserve Agent shall submit a statement to the Board on form F.R.A. 5, covering all issues and retirements of Federal Reserve notes."

Telegram to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In order to supplement data derived from reports made on Form F. R. 240 by member firms of New York Stock Exchange who have their principal offices in your district you are requested to obtain from such firms under code number and as soon as possible reports giving as of February 28, 1935 and October 31, 1935 following items:

"(1) Total number of margin accounts;

"(2) Total number of 'restricted accounts' as defined in section 2(j) of Regulation T;

"(3) Total net debit balances of 'restricted accounts'.

Reports should be forwarded to Board semi-weekly as received."

Approved unanimously as a necessary or appropriate step to enable the Board to perform the functions conferred upon it by the Securities Exchange Act.

Memorandum dated November 21, 1935, from Mr. Vest, Assistant General Counsel, recommending that there be published in the next issue of the Federal Reserve Bulletin a statement, in the form attached to the memorandum, with respect to the Board's recent interpretation of the phrase "contiguous or adjacent thereto" as contained in the Clayton Act as amended by the Banking Act of 1935.

Approved unanimously.

There were then presented the following applications for changes in stock of Federal reserve banks:

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<u>Applications for ADDITIONAL Stock:</u>	<u>Shares</u>	
<u>District No. 4.</u>		
The Peoples Savings Bank, Van Wert, Ohio	15	
First National Bank and Trust Company of Lexington, Lexington, Kentucky	8	
The Citizens National Bank of Bryan, Bryan, Ohio	4	
The Preble County National Bank of Eaton, Eaton, Ohio	12	
The First National Bank of Lockland, Lockland, Ohio	2	
The National Bank and Trust Company of Connellsville, Connellsville, Pennsylvania	<u>3</u>	44
<u>District No. 7.</u>		
The Upper Avenue Bank, Chicago, Illinois	30	
The Community National Bank & Trust Company of Knoxville, Knoxville, Iowa	<u>6</u>	<u>36</u>
	Total	80

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. Miller
Secretary.

Approved:

W. S. Scales
Chairman.