

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 27, 1935, at 10:15 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. Smead, Chief of the Division of Bank Operations
Mr. Paulger, Chief of the Division of Examinations
Mr. Wingfield, Assistant General Counsel

In accordance with the action taken at the meeting yesterday, there was presented a draft of a letter to the Chairman of the Federal Open Market Committee with regard to granting authority to the executive committee to make shifts in maturities of securities held in the System open market account.

Certain amendments were suggested to the letter and it was agreed that the letter should be revised and submitted for further consideration.

Reference was made to a memorandum dated November 20, 1935, from Mr. Smead, which had been circulated previously among the members of the Board, with respect to the revision of Form 105, Condition Report of State Member Banks, for the December 31, 1935, call. Among the changes proposed to be made in the form was the inclusion of an item providing for the reporting of "loans to others than brokers or dealers in securi-

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"ties for the purpose of purchasing or carrying securities", in connection with which Mr. Smead stated that the inclusion of this item had been suggested by Mr. Parry, Chief of the Division of Security Loans, for the purpose of obtaining information which it was felt would be of assistance to the division in formulating a draft of the regulation covering the extension and maintenance of credit by banks for the purpose of purchasing or carrying securities, and that it was proposed to include in the letter to the Federal reserve agents transmitting the form a statement that it was contemplated that the figures reported by the banks would represent the banks' best estimate of the amount of loans made for the purpose of purchasing and carrying securities. Several members of the Board expressed the opinion that the inclusion of the item would not be desirable and would not be productive of reliable results.

At Chairman Eccles' suggestion Mr. Parry, Chief of the Division of Security Loans, was called into the meeting and he made a brief statement of the reasons for the suggestion that the item be included in the call report form, during which he referred particularly to the difficulties connected with the formulation of proposed Regulation U relating to credit extended by banks. Certain aspects of the matter were discussed and Mr. Parry stated that, in view of the opinions expressed during the discussion, he would withdraw the suggestion that the item be included in the call report.

The other suggested changes in the call report form were approved with the

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understanding that the proposed Schedule I, "cash, balances with other banks, exchanges for clearing house, etc.", as included in the form would be in conformity with Regulation "D", approved by the Board at the meeting yesterday, which provides that "balances due from other banks" do not include balances due from foreign branches of American banks or from American branches of foreign banks.

At this point Mr. Parry left the meeting.

Chairman Eccles then suggested that consideration be given to the draft of Regulation "H", Membership of State Banks and Trust Companies, which had been prepared by the staff and revised following receipt of the comments and suggestions of 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. Mr. Wyatt outlined the controversial points in the regulation which were considered at the conference above referred to as outlined in a memorandum dated November 2, 1935, from Mr. Wingfield, and called attention to certain amendments which had been suggested, particularly in connection with the proposed conditions of membership.

There was a detailed discussion of condition of membership numbered 5 which related to the investment of funds held by banks as fiduciaries, and the opinion was expressed by Chairman Eccles that the condition as drawn would prevent a bank from making a loan as fiduciary on a single mortgage for the account of two or more trusts being administered by the bank, and that, in his opinion, there was no objection to this practice so long as the bank owned no portion of the mortgage,

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and that new member banks should not be placed at such a competitive disadvantage in relation to other member banks which would not be subject to such a condition of membership, and to nonmember banks. Mr. Wyatt pointed out that the policy laid down in the condition was substantially the same as that enunciated in the statement of trust principles adopted by the American Bankers Association, and the rule laid down in the Board's Regulation "F" with regard to trust powers of national banks. Consideration was then given to various suggested amendments to the condition which would meet the point raised by Mr. Eccles.

Counsel was requested to prepare a revision of the condition which would incorporate these suggested amendments.

Other amendments to the regulation were agreed to and Mr. Szymczak moved that the text of condition numbered 5 to be prepared by Mr. Wyatt be circulated among the members of the Board for consideration, with the understanding that, as soon as the text of the condition was approved, the regulation would be adopted and issued in the form as otherwise agreed upon at this meeting, to become effective as of January 1, 1936.

Carried unanimously.

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

There was then presented the draft of the regulation with regard to loans to executive officers 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. Mr. Wyatt reviewed the controversial points in the regulation which had been considered at the conference referred

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to above, as set forth in a memorandum dated November 5, 1935, from Mr. Cherry, and outlined the consideration that had been given to the definition in the regulation of the term "executive officer".

The definition was discussed and two amendments thereto were agreed upon. An amendment to subsection 1(c) was also approved, following which, upon motion by Mr. Miller, and in accordance with the action taken at the meeting yesterday, the regulation was approved and adopted unanimously in the following form as Regulation "O", to become effective January 1, 1936:

"REGULATION O

"Effective January 1, 1936.

"LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

"STATUTORY PROVISIONS

"This regulation is based upon and issued pursuant to the provisions of subsection (g) of section 22 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

"SECTION 1. DEFINITIONS

"For the purpose of this regulation -

"(a) The term 'member bank' means any national bank, State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, or other banking institution which is a member of the Federal Reserve System.

"(b) The term 'executive officer' means the Chairman of the Board of Directors, the President, every Vice President, the Cashier, Secretary, Treasurer, and Trust Officer of a member bank, and, in addition, every other officer of a member bank who participates in the management of the bank or any branch thereof, regardless of whether he has an official title or whether his title contains a designation of assistant, and regardless of whether he is serving without salary or other compensation; but such term does not include a director or member of a committee who is not also an executive officer within the foregoing definition.

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"(c) The terms 'loan', 'loaning', 'extension of credit', and 'extend credit' mean the making of a loan or the extending of credit in any manner whatsoever, and include -

- (1) Any advance by means of an overdraft, cash item, or otherwise;
- (2) The acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, indorser, guarantor, or surety;
- (3) The increase of an existing indebtedness, except on account of accrued interest or on account of taxes, insurance, or other expenses incidental to the existing indebtedness and advanced by the bank for its own protection;
- (4) Any advance of unearned salary or other unearned compensation for periods in excess of 30 days; and
- (5) Any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever, by reason of an indorsement on an obligation or otherwise, to pay money or its equivalent.

"Such terms, however, do not include (i) advances against accrued salary or other accrued compensation, or for the purpose of providing for the payment of authorized travel or other expenses incurred or to be incurred on behalf of the bank, (ii) the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the granting of an overdraft to or the carrying of a cash item for an executive officer, or (iii) the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or other organization, or through foreclosure on collateral or similar proceeding for the protection of the bank.

"(d) The terms 'borrow' and 'become indebted' mean any transaction by which an executive officer, directly or indirectly by any means whatsoever, receives a loan or extension of credit as defined above.

"SECTION 2. GENERAL PROVISIONS

"(a) Executive officers and partnerships prohibited from borrowing. - Except as provided in section 3 of this regulation, an executive officer of a member bank shall not borrow from or

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"otherwise become indebted to the member bank of which he is an executive officer and a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in the partnership shall not borrow from or otherwise become indebted to such member bank.

"(b) Member banks prohibited from loaning to executive officers and partnerships. - Except as provided in section 3 of this regulation, no member bank shall make any loan or extend credit in any manner to any of its own executive officers and no member bank shall make any loan or extend credit in any manner to a partnership in which one or more executive officers of such member bank are partners having either individually or together a majority interest in the partnership.

"SECTION 3. EXCEPTIONS

"(a) The provisions of section 2 of this regulation shall not apply -

- (1) To any loan or extension of credit by a member bank, provided that, as a result of such loan or extension of credit, an executive officer of the member bank does not become indebted to it in an amount in excess of \$2,500, and provided further that a majority of the entire board of directors of the member bank has in each case given prior approval to such loan or extension of credit;¹
- (2) To the indorsing or guaranteeing for the protection of a member bank of any loan or other asset which shall have been previously acquired by the member bank in good faith, regardless of the amount thereof; or
- (3) To any loan, indebtedness, or extension of credit, regardless of the amount thereof, for the purpose of protecting a member bank against loss or giving financial assistance to it.

"(b) The approval of any loan or extension of credit under the provisions of paragraph (1) of subsection (a) of this section shall be evidenced by a resolution of the board of directors

¹It is not contemplated that a renewal or extension of a loan previously made and approved under the provisions of this paragraph must be approved by the board of directors if such renewal or extension does not include an increase in the indebtedness of the executive officer involved.

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"spread upon the minute book of the bank; and any indorsement, guarantee, loan, indebtedness, or extension of credit under the provisions of paragraph (2) or (3) of subsection (a) of this section shall be reported to the board of directors of the bank and a record thereof incorporated in the minute book of the bank.

"SECTION 4. RENEWALS OR EXTENSIONS OF LOANS
MADE PRIOR TO JUNE 16, 1933

"(a) Loans may be renewed under certain conditions. - Loans made to an executive officer prior to June 16, 1933, by the member bank of which he is an executive officer, may be renewed or extended with the prior approval of the board of directors of the member bank for periods expiring not later than June 16, 1938. Any such renewal or extension shall be made only where the board of directors of the member bank shall have satisfied itself that such renewal or extension is in the best interest of the member bank and that the executive officer indebted has made a reasonable effort to reduce his obligation. The findings of the board of directors with respect thereto shall be evidenced by a resolution spread upon the minute book of the bank. No such loan shall be renewed or extended, by conversion into a demand loan or otherwise, for periods expiring subsequent to June 16, 1938.

"(b) Limitations not applicable to excepted loans. - The limitations prescribed in the foregoing subsection shall not apply to any loan, indebtedness, extension of credit or to the indorsing or guaranteeing of any loan or other asset referred to in section 3 of this regulation.

"SECTION 5. REPORTS BY EXECUTIVE OFFICERS
OF MEMBER BANKS OF THEIR INDEBT-
EDNESS TO OTHER BANKS

"Any executive officer of any member bank who on the effective date of this regulation is or thereafter becomes indebted to any bank, banking association, or trust company (including a member bank) other than the member bank of which he is an executive officer shall, within 30 calendar days after the effective date of this regulation or within 10 calendar days after he becomes so indebted, as the case may be, make a written report thereof to the board of directors of the member bank of which he is an executive officer.² Each such report shall state the name of the bank to which he is indebted, the date such indebtedness

²No report need be made in the case of renewals or extensions of an indebtedness which has been previously reported, provided the indebtedness is not increased.

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"was incurred and the date of maturity thereof, the amount of such indebtedness, the form of the indebtedness, the security therefor, if any, and the purpose for which the proceeds have been or are to be used. A record of the receipt of each such report shall be made in the minute book of the member bank receiving it and all such reports shall be retained by such member bank and made available, upon request, for inspection by duly authorized examiners.

"SECTION 6. PENALTIES

"(a) Executive officer subject to removal from office.- Any executive officer of a member bank who violates any provision of subsection (g) of section 22 of the Federal Reserve Act will be subject to removal from office in the manner prescribed in section 30 of the Banking Act of 1933.

"(b) Member banks subject to forfeiture of membership.- Any member bank which violates any provision of subsection (g) of section 22 of the Federal Reserve Act will, in the case of a national bank, be subject to the forfeiture of all rights, privileges, and franchises granted to it under the National Bank Act, in the manner prescribed in section 2 of the Federal Reserve Act and, in the case of any State member bank, be subject to the forfeiture of all of its rights and privileges of membership in the Federal Reserve System, in the manner prescribed in section 9 of the Federal Reserve Act."

It was agreed that Regulation "O" should be sent to the Federal reserve banks as soon as possible with the request that, in order to enable the placing of copies in the hands of member banks promptly, the Federal reserve banks print the regulation as soon as possible and send copies thereof to their member banks. It was also agreed that, as there was no urgency in the distribution of Regulations "H" and "P", these regulations should be printed by the Board in Washington and sent to the Federal reserve banks for distribution.

In connection with the issuance of the regulations approved at

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the meetings yesterday and today, Chairman Eccles stated that he felt that they should be released as soon as possible to be effective as of January 1, 1936. In this connection, Mr. Wyatt suggested that it would be desirable in releasing the regulations to issue some explanatory statement.

It was agreed that such statements could be issued with the approval of the Chairman without bringing the matter to the attention of the Board.

It was agreed that a meeting of the Board should be held on Friday, November 29, 1935, at 10:00 a. m., for the purpose of discussing the appointment of Class C directors and directors at branches of the Federal reserve banks for the coming year.

At this point Mr. Cherry left the room and Mr. Baumann, Assistant Counsel, joined the meeting.

Reference was then made to the draft of Regulation "P", Holding Company Affiliates - Voting Permits, and the draft of letter to all Federal reserve agents containing instructions relating to the preparation of exhibits accompanying applications for voting permits, which had been prepared by the staff and revised following receipt of the comments and suggestions of the Federal reserve banks, 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 18, 1935, from Mr.

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Baumann. Certain amendments to the regulation suggested by Mr. Hamlin were discussed and it was pointed out that the proposed standard conditions upon which voting permits would be issued, and upon which the Board had not yet reached a conclusion, were not a part of the regulation but would be incorporated in separate agreements to be executed by the individual holding company affiliates.

At the conclusion of the discussion, Regulation "P" was approved and adopted unanimously in the following form, to become effective as of January 1, 1936:

"REGULATION P

"Revised Effective January 1, 1936.
(Superseding Regulation P, Series of 1933)

"HOLDING COMPANY AFFILIATES -- VOTING PERMITS

"STATUTORY PROVISIONS.

"This regulation is based upon and issued pursuant to various provisions of section 5144 of the Revised Statutes of the United States and of the Federal Reserve Act, the most important of which, together with related provisions of law, are published in the Appendix hereto.

"SECTION 1. DEFINITIONS

"For the purposes of this regulation --

"(a) Holding company affiliate.--The term 'holding company affiliate' shall have the meaning given to it by section 2(c) of the Banking Act of 1933.^{1/} (See Appendix, page .)

"(b) Affiliate.--The term 'affiliate' shall have the meaning given to it by section 2(b) of the Banking Act of 1933 (See Appendix, page .)^{2/}

^{1/} An organization is not a holding company affiliate of a bank (national or State) unless the bank is a member of the Federal Reserve System.

^{2/} For the purposes of certain provisions of sections 9 and 23A of the Federal Reserve Act and section 5211 of the Revised Statutes of the United States, the term 'affiliate' also includes any 'holding company affiliate'.

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"(c) Subsidiary.--The term 'subsidiary' means any corporation, business trust, association, or other similar organization engaged in any kind of business whatsoever (including any member or nonmember bank)--

(1) Of which any corporation, business trust, association, or other similar organization owns or controls, directly or indirectly, a majority of the shares of capital stock; or

(2) Of which any corporation, business trust, association, or other similar organization owns or controls, directly or indirectly, more than 50 per centum of the number of shares voted for the election of the directors, trustees, or other persons exercising similar functions at the preceding election; or

(3) Of which any corporation, business trust, association, or other similar organization controls in any manner the election of a majority of the directors, trustees, or other persons exercising similar functions; or

(4) Of which all or substantially all the capital stock is held by trustees for the benefit of the shareholders or members of any corporation, business trust, association, or other similar organization.

"(d) Affiliated.--Any corporation, business trust, association, or other similar organization (including any member or nonmember bank) shall be deemed to be 'affiliated' with another such organization:

(1) If either organization owns or controls, directly or indirectly, a majority of the shares or of the voting shares of the other or more than 50 per centum of the number of shares of the other voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election; or

(2) If either controls in any manner the election of a majority of the other's directors, trustees, or other persons exercising similar functions; or

(3) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by shareholders of the other who also own or control a majority of the shares of the latter or more than 50 per centum of the number of shares of the latter voted for the election of directors, trustees, or other persons exercising similar functions at the preceding election; or

(4) If control of either is held, directly or indirectly, through stock ownership or in any other manner, by trustees for the benefit of the shareholders of the other; or

(5) If a majority of the directors, trustees, or other persons exercising similar functions of either have similar connections with the other.

"(e) Member bank.--The term 'member bank' means any national

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"bank, State bank, savings bank, trust company, Morris Plan bank, mutual savings bank, or other banking institution which is a member of the Federal Reserve System.

"(f) Nonmember bank.--The term 'nonmember bank' means any banking institution which is not a member of the Federal Reserve System.

"(g) General voting permit.--The term 'general voting permit' means any voting permit entitling a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank at all meetings of the shareholders of such bank and for all purposes.

"(h) Limited voting permit.--The term 'limited voting permit' means any voting permit authorizing a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank only at a designated meeting or meetings of the shareholders of such bank or at a meeting or meetings held within a designated period of time and for only such purposes as are stated in the permit.

"(i) Board.--The term 'Board' means the Board of Governors of the Federal Reserve System.

"SECTION 2. ORGANIZATIONS NOT ENGAGED AS A BUSINESS
IN HOLDING STOCK OF, OR MANAGING OR CONTROLLING, BANKS.

"The term 'holding company affiliate' does not include (except for the purposes of Sec. 23A of the Federal Reserve Act) any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. The Board will consider this matter in acting upon applications for voting permits and if, on the basis of the available information, it determines that an applicant is not so engaged within the meaning of the law, it will advise such applicant accordingly.

"If any organization which does not have a voting permit application pending before the Board desires that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, it shall file a request for such determination.

"Any such request shall be accompanied by full information concerning all matters having a bearing on the question, including the purpose for which the organization filing the request was organized, the nature and purpose of its present activities, the description and value of its various classes of assets, its relationships with affiliated organizations (including name and address of each such organization, the character of its business or other activities, and the nature of the relationship), and the bank

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"stocks which it directly or indirectly owns or controls (including the number and value of the shares owned or controlled of each bank, the total number of outstanding shares of each bank, and the manner in and purpose for which such stock, or control thereof, was acquired and is held).^{3/}

"Any such request and the supporting information shall be in writing and shall be filed in duplicate with the Federal Reserve agent at the Federal Reserve bank of the district in which the principal office of such organization is located. The Federal Reserve agent shall forward to the Board the original thereof together with his recommendations and the opinion of counsel for the Federal Reserve bank of such district.

"SECTION 3. STATE MEMBER BANKS MUST OBTAIN AND FILE AGREEMENTS BY HOLDING COMPANY AFFILIATES.

"Each State member bank which is or hereafter becomes a subsidiary of a holding company affiliate shall obtain from such holding company affiliate an agreement (Form P-5) that such holding company affiliate will be subject to the same conditions and limitations as are applicable to holding company affiliates of national banks under the provisions of section 5144 of the Revised Statutes. Such agreement shall be obtained within 90 days after such member bank shall have become a subsidiary of the holding company affiliate.

"Upon the failure of a State member bank which is now or hereafter becomes a subsidiary of a holding company affiliate to obtain the requisite agreement within the time prescribed, the law makes it the duty of the Board to require such bank to surrender its stock of the Federal Reserve bank and to forfeit all rights and privileges of membership in the Federal Reserve System.

"The original and one copy of such agreement must be filed promptly with the Federal Reserve agent at the Federal Reserve bank of the district in which the holding company affiliate's principal office is located, and the original of such agreement shall be sent by such Federal Reserve agent to the Board.

"Any State banking institution applying for membership in the Federal Reserve System will be required to obtain and file a similar agreement (Form P-6) by any corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System.

"^{3/} If the organization filing the request has previously been granted a general voting permit, it need only file such information as is necessary to supplement and bring up to date the information contained in its application for such permit.

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"SECTION 4. NECESSITY FOR OBTAINING VOTING PERMITS

"No holding company affiliate of a national bank or of a State member bank which has executed the agreement required by section 3 of this regulation may lawfully vote any share of stock of such bank for any purpose, other than to place such bank in voluntary liquidation or to take any other action pertaining to the voluntary liquidation of such bank, unless such holding company affiliate shall have first obtained a voting permit, pursuant to the provisions of section 5144 of the Revised Statutes and of this regulation, and unless such voting permit shall be in force at the time such shares are voted.

"No State banking institution will be admitted to membership in the Federal Reserve System until each corporation, business trust, association, or other similar organization which will become a holding company affiliate of such banking institution upon the latter's admission to membership in the Federal Reserve System has filed an application for a voting permit. At its discretion, the Board will either (a) require that each such applicant for a voting permit comply with all conditions to the granting of a general voting permit prior to the admission of the bank to membership, or (b) admit the bank to membership subject to the condition that each such applicant obtain a general voting permit within a reasonable time.

"SECTION 5. GRANTING OF VOTING PERMITS

"Any holding company affiliate of a member bank, and any such organization of which a nonmember bank applying for membership in the Federal Reserve System is a subsidiary, may make application to the Board for a voting permit entitling it to vote the shares owned or controlled by it at any or all meetings of shareholders of each of its subsidiary member banks or entitling the trustee or trustees holding the shares for its benefit or the benefit of its shareholders or members so to vote such shares.

"In acting upon an application for a voting permit, the Board is required to consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of such permit upon the affairs of each of its subsidiary member banks. The Board is vested with discretionary authority to grant or withhold any voting permit applied for as the public interest may require, provided, however, that no voting permit shall be granted except upon certain conditions prescribed by law. Accordingly, each applicant for a voting permit will be required to execute certain agreements which are contained in Form P-1 (the application form) and the Board, in granting voting permits, will prescribe such additional conditions as it may, in the circumstances, deem reasonable and proper and in the public interest.

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"SECTION 6. PROCEDURE RELATING TO
APPLICATIONS FOR VOTING PERMITS.

"An applicant for a voting permit need file only one application, notwithstanding the fact that it may desire permission to vote shares of more than one bank. The application shall be submitted on Form P-1 and the applicant shall furnish the exhibits referred to therein as a part of its application. Exhibits C, L, N, P, and Q shall be furnished on Forms P-2, P-3, P-4, P-5, and P-6, respectively. All forms (except signatures of persons executing same) should be filled out by typewriter. Instructions concerning the preparation of the other exhibits should be obtained from the Federal Reserve agent.

"The application and the exhibits referred to in the application blank shall be executed and filed in duplicate with the Federal Reserve agent at the Federal Reserve bank of the district in which the applicant's principal office is located and a copy thereof shall be filed with the Federal Reserve agent at the Federal Reserve bank of each other district in which a subsidiary member bank or subsidiary nonmember bank applying for membership is located.

"The Federal Reserve agent at the Federal Reserve bank of the district in which the applicant's principal office is located will forward the original application to the Board, with his recommendation and that of the executive committee of the Federal Reserve bank of his district. The Federal Reserve agent at the Federal Reserve bank of any other district in which a subsidiary member bank or a subsidiary nonmember bank applying for membership is located will forward to the Board his recommendation and that of the executive committee of the Federal Reserve bank of such district.

"If a holding company affiliate, which has filed an application for a voting permit, desires to vote shares of a subsidiary member bank at any meeting of the bank's shareholders before the Board grants it a general voting permit, such holding company affiliate may request the Board to grant a limited permit entitling it to vote the shares at such meeting. The request shall be in writing and shall be signed by a duly authorized officer of the applicant. It shall state the approximate date of the meeting and shall contain full information concerning the matters to be acted upon at such meeting. It shall be filed in duplicate with the Federal Reserve agent with whom the application for a voting permit has been filed and the Federal Reserve agent shall forward the original of such request to the Board with his recommendation.

"SECTION 7. RESERVE REQUIREMENTS

"Beginning June 16, 1938, every holding company affiliate

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"must, during the life of any voting permit granted to it, comply with the provisions of section 5144 of the Revised Statutes relating to reserves of readily marketable assets other than bank stock (See Appendix, page). The assets required to be maintained as reserves may be used by the holding company affiliate for replacement of capital in banks affiliated with it and for the elimination of losses incurred in such banks; but any deficiency in such assets resulting from such use must be made up within a period of two years after the date such assets are so depleted, unless the Board, in its discretion, extends such period for cause.

"SECTION 8. REVOCATION OF PERMIT

"If it appears to the Board that any holding company affiliate has violated any of the provisions of the Banking Act of 1933 or of any agreement made pursuant to section 5144 of the Revised Statutes, the Board may, in its discretion, revoke any voting permit theretofore granted to such holding company affiliate after giving 60 days' notice by registered mail of its intention to the holding company affiliate and affording it an opportunity to be heard.

"SECTION 9. PARTICIPATION BY SUBSIDIARY MEMBER BANKS IN NOMINATION OR ELECTION OF DIRECTORS OF FEDERAL RESERVE BANKS.

"Whenever two or more member banks within the same Federal Reserve district are subsidiaries of the same holding company affiliate, only one such bank may participate in any nomination or election of directors of the Federal Reserve bank for such district, and the holding company affiliate of such subsidiary member banks may designate the particular subsidiary member bank which is to participate in such nomination or election. A holding company affiliate may designate one of its subsidiary member banks in each of the three groups into which member banks of each Federal Reserve district are divided for electoral purposes to participate in the nomination and election of each director chosen by the group of which such bank is a member.

"SECTION 10. 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 all Federal reserve agents was approved unanimously in the following form:

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"As you know, the detailed instructions relating to the preparation of exhibits D, G and H in connection with applications for voting permits, heretofore contained in section VII of Regulation P, have been omitted from that regulation as revised effective January 1, 1936. In lieu thereof, the regulation now provides that information concerning the preparation of such exhibits and others for which printed forms have not been prepared may be obtained from the Federal Reserve agents.

"For your guidance, instructions concerning the preparation of certain of the exhibits are set forth in this letter. These instructions indicate the information which the Board desires to have furnished to it generally but it is realized that in some cases it will be impracticable and unnecessary to follow such instructions implicitly. It is contemplated that you will furnish applicants for voting permits with such detailed instructions as may be necessary in view of the circumstances of the particular cases in order that the exhibits may contain the desired information.

"With reference to exhibits not hereinafter commented upon, it is believed that the descriptions contained in Form P-1 are self-sufficient and that no instructions are necessary. The instructions with reference to the other exhibits are as follows:

"Exhibit D. The required statement of financial condition of the applicant shall be prepared as of the date of the application or a date not in excess of 60 days prior thereto. It shall show separately each control account or each principal group or class of assets, liabilities, and net worth and shall be supported by schedules and detailed information with respect to the following:

1. Investments of applicant in each class of capital stock of each subsidiary bank and each other organization with which applicant or any of its subsidiaries is affiliated, showing the number of shares of stock of each such subsidiary or affiliated organization authorized, the par value thereof, the number of shares outstanding, the number of such shares owned by applicant, the cost of same to applicant, the amount at which carried in the assets of the applicant, the number of such shares pledged by the applicant, if any, and the name of the pledgee and the purpose of the pledge.
2. Other investments -
 - (a) Bonds - name of obligor, interest rate, maturity, par value, carrying value, and amounts pledged by the applicant, if any, and the name of the pledgee and the purpose of the pledge;

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- "(b) Stocks - name of issuing corporation, number of shares held, total number of shares outstanding (if known), class, par value, carrying value, and number of shares pledged by the applicant, if any, and the name of the pledgee and the purpose of the pledge.
3. Notes and accounts receivable from each subsidiary and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.
 4. Notes and accounts receivable from directors, officers, and employees of the applicant and its subsidiaries and other organizations with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.
 5. Notes and accounts receivable from others.
 6. Other assets.
 7. Notes and accounts payable and other obligations (including bonds, debentures, loans, extensions of credit, advances in any form, repurchase agreements, and securities borrowed) to each subsidiary bank and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, interest rate, nature and purpose of each and the description of any collateral thereto.
 8. Other notes and accounts payable and all other obligations.
 9. Each class of capital stock of applicant, showing the number of shares authorized and outstanding, the par value thereof, and any pertinent facts relating to preferences, redemptions, cumulative dividends, voting rights, etc., and any options or stock purchase warrants outstanding.
 10. Contingent liabilities of applicant, showing the amount and nature of each.

"There shall be attached to this exhibit a copy of the latest annual report of the applicant which was prepared for or sent to the shareholders thereof. There shall also be attached operating statements (including therein detailed statement of income and expenses) and analyses of applicant's surplus and undivided profits account covering at least the last two fiscal years and the portion of the current fiscal year up to the date of the statement of financial condition of the applicant contained in this exhibit,

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"including full information concerning dividends and fees for management and service charges received from, and contributions made to, subsidiaries and other affiliated organizations and an explanation concerning the manner in which any paid-in, initial, or capital surplus was created and any changes therein.

"If applicant is exercising fiduciary powers, there shall also be attached to this exhibit a financial statement of condition of the applicant's trust department, together with a supplementary statement setting forth the amount of capital stock, bonds, debentures, or other obligations of or guaranteed by the applicant or any subsidiary or other organization with which the applicant or any of its subsidiaries is affiliated, which are held in any of the trusts or other fiduciary accounts in the trust department of the applicant. This supplementary statement shall set forth the name of each such trust, the amount of the corpus thereof, the name of the co-fiduciary, if any, the amount invested in such capital stock or obligations, the dates when such investments were made, and pertinent information as to the amounts of such capital stock or obligations which were purchased, acquired in the original inventory, or otherwise acquired for each such trust, with an explanation as to the authority or instructions for the purchases.

"Exhibit E. In the event that the applicant is an organization (other than a member bank) subject to examination by a State supervisory authority, a complete copy of the latest report of examination made by such authority shall be included in this exhibit. This shall be supplemented by a statement showing what action has been taken with respect to any doubtful assets, estimated losses, and depreciation in securities shown by such report.

"Exhibit F. This exhibit shall contain a detailed statement regarding the management and personnel of the applicant, including the names, addresses and principal business connections (including all connections with any subsidiary of the applicant or any other organization with which applicant or any of its subsidiaries is affiliated) of all directors and officers, and a list of the principal shareholders of the applicant showing the number of shares owned by each.

"Exhibit G. This exhibit shall contain the following information concerning the relationships between the applicant and its subsidiaries and other organizations with which the applicant or any of its subsidiaries is affiliated and the relationships between such subsidiaries and other affiliated organizations:

1. A description of the function of each subsidiary and each other affiliated organization.
2. The date on which each such relationship was established.

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3. The purpose for which each such relationship was established.
4. The number of shares of each class of stock of each subsidiary and each other affiliated organization: (a) authorized, (b) outstanding, (c) owned by the applicant, (d) owned by any subsidiary of the applicant, (e) held by a trustee or trustees for the benefit of the shareholders or members of the applicant, (f) controlled in any other manner by the applicant and/or any subsidiary thereof (stating the manner in which controlled).
5. Full details concerning the manner in which the applicant controls the election of a majority of the directors of any subsidiary other than through ownership or control of stock of the subsidiary.
6. Full details concerning the manner in which each organization (other than a subsidiary) is affiliated with the applicant or a subsidiary thereof.
7. The number of shares of each class of stock of each subsidiary and each other affiliated organization acquired by the applicant or a subsidiary thereof: (a) for cash or its equivalent, (b) in exchange for stock of the applicant or a subsidiary thereof.
8. A list of the names and addresses of all directors and officers of each subsidiary and each other affiliated organization.
9. Full details concerning any shares of stock of any subsidiary or other affiliated organization held by directors thereof subject to agreements to convey such shares to the applicant or a subsidiary thereof.
10. A list of all subsidiaries and other affiliated organizations divorced or dissolved since June 16, 1933, stating the manner in and date on which each such relationship was terminated or dissolution effected.

"If control of any subsidiary is held through trustees there shall be attached to this exhibit a copy of the agreement creating the trust and a copy of each other instrument directly affecting the trust, together with the following information:

1. The names of the trustees.
2. The names of the beneficiaries for whom the trust is maintained.
3. The purpose of the trust.

"This exhibit shall also contain a statement of financial condition of each of the applicant's subsidiaries other than banks and of each other organization with which the applicant or any of its subsidiaries is affiliated. Each such statement shall be prepared as of the date of the applicant's statement

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"of financial condition contained in Exhibit D or, if this be impracticable, then at the nearest date thereto which is practicable and shall show separately each control account or each principal group or class of assets, liabilities, and net worth. There shall also be attached operating statements (including therein detailed statement of income and expenses) and analyses of surplus and undivided profits accounts of each such organization covering at least the last two fiscal years and the portion of the current fiscal year up to the date of the statement of financial condition of such organization, together with an explanation concerning the manner in which any paid-in, initial, or capital surplus was created and any changes therein.

"Exhibit H. Each of the required statements of financial condition of subsidiary banks shall be prepared as of the date of the applicant's statement of financial condition contained in Exhibit D. Each such statement shall show separately each control account or each principal group or class of assets, liabilities, and net worth and shall be supported by schedules and detailed information with respect to the following:

1. Funds of each subsidiary bank invested in capital stock, bonds, debentures, or other obligations of applicant or of any subsidiary of applicant or of any other organization with which applicant or any of its subsidiaries is affiliated.
2. Loans, advances, or extensions of credit made against the capital stock, bonds, debentures, or other obligations of applicant or of any subsidiary of applicant or of any other organization with which applicant or any of its subsidiaries is affiliated, showing the market value of any other collateral which may be held in connection with such loans.
3. Loans, advances, or extensions of credit 'due to' and 'due from' the applicant and each subsidiary of applicant and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.
4. Other accounts 'due to' and 'due from' the applicant and each subsidiary of applicant and each other organization with which applicant or any of its subsidiaries is affiliated, showing the amount, date, maturity date, nature and purpose of each and the description of any collateral thereto.

"If a subsidiary bank of the applicant is exercising fiduciary powers, there shall be attached to this exhibit a statement of financial condition of the trust department of such

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"bank, together with a supplementary statement setting forth the amount of capital stock, bonds, debentures, or other obligations of or guaranteed by the applicant, or any subsidiary, or other organization with which the applicant or any of its subsidiaries is affiliated, which are held in any of the trusts or other fiduciary accounts in the trust department of such bank. This supplementary statement shall set forth the name of each such trust, the amount of the corpus thereof, the name of the co-fiduciary, if any, the amount invested in such capital stock or obligations, the dates when such investments were made, and pertinent information as to the amounts of such capital stock or obligations which were purchased, acquired in the original inventory, or otherwise acquired for each such trust, with an explanation as to the authority or instructions for such purchases.

"Exhibit K. This exhibit shall contain a detailed statement of any plan of reorganization, consolidation, merger, liquidation or adjustment of capital structure involving any of applicant's subsidiary banks or other subsidiaries or other organizations with which applicant or any of its subsidiaries is affiliated, which is proposed or pending or which has been effected since the latest examination of any such organization. In each case involving the reorganization or adjustment of the capital structure of any subsidiary or affiliated bank full information shall be submitted relative to the amounts of doubtful assets, estimated losses, and depreciation in securities which have been eliminated since the latest examination of such bank and the manner in which the eliminations were made or which are to be eliminated upon proposed or pending plans."

Messrs. Wyatt, Smead, Paulger, Wingfield and Baumann then left the meeting, and the Board acted upon the following matters:

Letter to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of October 15, 1935, and its inclosures, relating to the holding company affiliate status of The Pacific Lumber Company of Augusta, Maine, Inc.

"Pursuant to the request of The First National Bank of Scotia, Scotia, California, the Board has determined that The Pacific Lumber Company of Augusta Maine, Inc., is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associa-

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"tions, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935. Accordingly, that company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter of advice addressed to Mr. E. P. McKenzie, Cashier of The First National Bank of Scotia, Scotia, California, which you are requested to transmit to such bank. There are also inclosed two copies of such letter, one of which is for your files and the other for transmittal to The Pacific Lumber Company of Augusta Maine, Inc. If you have not already done so, it may be desirable for you to call to the specific attention of the company and the bank the fact that the Board's action does not affect the holding company affiliate status of The Pacific Lumber Company of Augusta Maine, Inc., for the purposes of section 23A of the Federal Reserve Act.

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

Approved unanimously, together with a letter to Mr. E. P. McKenzie, Cashier, The First National Bank of Scotia, Scotia, California, reading as follows:

"This refers to your letter of October 11, 1935 to the Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, in which you request that the Board determine that The Pacific Lumber Company of Augusta Maine, Inc., is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935. A copy of your letter was forwarded to the Board for its consideration.

"The Board understands that The Pacific Lumber Company of Augusta Maine, Inc., was organized and is operated for the purpose of manufacturing lumber; that such company owns 475 of the 600 outstanding shares of stock of The First National Bank of Scotia; that such company organized The First National Bank of Scotia for the purpose of maintaining banking facilities for the convenience of such company and its employees; that such company's investment in the stock of such bank constitutes a relatively insignificant portion of its assets; that such company does not own the stock of, or

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"manage or control, any other bank; and that such company was not organized and is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that The Pacific Lumber Company of Augusta Maine, Inc., is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

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

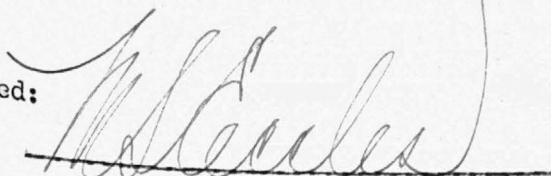
Telegram to the Federal reserve agents at all Federal reserve banks reading as follows:

"It is suggested that semi-weekly, weekly, and semi-monthly reports by member banks of deposits for reserve purposes be compared with November 1 Call Reports as promptly as practicable. Any outstanding differences should be called to Board's attention and reconciliation effected with member banks. An exact agreement cannot, of course, be expected pending issuance of revised Regulation D and revision of Call Report form because 'Outside checks and other cash items' as shown in Call Report doubtless include certain amounts not representing cash items in process of collection."

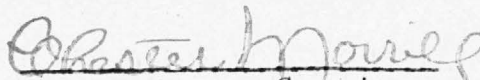
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



 Chairman.



 Secretary.