

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, December 19, 1935, at 11:30 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

The Board acted upon the following matters:

Letter to the Reconstruction Finance Corporation, prepared in accordance with the action taken at the meeting of the Board on December 11, 1935, and reading as follows:

"Reference is made to your letter of December 9, 1935, submitting to the Board of Governors of the Federal Reserve System the amendments proposed to be made to the charter of The Birmingham Trust and Savings Company, Birmingham, Alabama, a State member bank, in connection with your purchase of additional preferred stock in the bank and the reduction in the par value of Class 'A' preferred stock to an amount less than the retirement price of such stock.

"You have called particular attention to Sections 4 and 5 of Article THIRD of the proposed amendments which restrict the payment of dividends on preferred stock 'B' and common stock and to Section 13 of the same Article, which gives special voting rights to the holders of preferred stock 'A' and 'B' when the fair value of the assets of the bank is less than specified amounts. You have also called particular attention to Section 18 of Article THIRD which provides that the determination of the fair value of the assets of the bank as referred to in Sections 4, 5 and 13 shall be made by a person or persons designated by the Board of Governors of the Federal Reserve System and shall be based upon the latest available report of examination made under the direction of or approved by the Board. Section 18 of article THIRD of the proposed amendments reads as follows:

Determination of fair value of assets. The determination of the fair value of the assets of the Corporation for the purposes of this article THIRD shall, unless and except as otherwise expressly provided, be made

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"by such person or persons as may be designated to make the same by the Board of Governors of the Federal Reserve System or by such body or agency created under the laws of the United States as may succeed to its authority to make examinations of banking institutions and at that time be vested with such authority with respect to the Corporation and be based upon the last available report of examination of the Corporation made under the direction of or approved by such Board of Governors or such other body or agency. Each such determination shall be in writing and filed with the Corporation and be effective until another such determination is so filed. In the event the Board of Governors of the Federal Reserve System or such successor body or agency shall cease to have authority to examine the Corporation or shall decline to have such determination made, then such determination shall from time to time be made by a person or persons and in a manner satisfactory to the holders of a majority of the shares of Preferred Stock 'A' outstanding, (or after all of such Preferred Stock 'A' shall have been retired, to the holders of a majority of the shares of Preferred Stock 'B' outstanding) as expressed in an instrument in writing signed by the holder or holders of such majority from time to time filed with the Corporation.

"It was stated that, before the proposed amendments are submitted to the bank for adoption, you would like to be advised that the Board has no objection to the provisions of Section 18 of Article THIRD and that it will be willing to designate a person or persons to make the determinations of the fair value of the assets of the bank as therein provided. You state that, if the Board is willing in this case to undertake the responsibilities imposed by Section 18 of Article THIRD, it is intended that a similar provision will be inserted in charter amendments adopted by other State member banks which propose to reduce the par value of their preferred stock.

"This will confirm the previous oral advice that the Board will be willing to designate a person or persons to make a determination of the fair value of the assets of The Birmingham Trust and Savings Company, as provided in Section 18 of Article THIRD as submitted. It is understood that this may serve as a precedent in other similar cases in which you are interested.

"It is assumed that a request for the determination of the fair value of the assets of the bank as provided in Section 18 will not be made until such time as there is reason to believe that the fair value of the assets is sufficient to permit

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"of the payment of dividends under Sections 4 or 5 of Article THIRD, or until a question arises as to the voting rights of the various classes of stock under Section 13."

Approved unanimously, together with a letter to the Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta inclosing a copy of the letter for his information.

Letter to Mr. H. Ralph Ewart, Wilmington, Delaware, signed by Mr. Clayton, Assistant to the Chairman, and reading as follows:

"Your letter of November 25, 1935, and inclosure, addressed to Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, has been referred to me for reply. You complain of the manner in which the Equitable Trust Company, Wilmington, Delaware, a member of the Federal Reserve System, has administered a trust of which you are one of the beneficiaries and you request such cooperation as the Board of Governors of the Federal Reserve System may be able to give you in straightening out this matter.

"While the Board, under the provisions of the Federal Reserve Act, performs duties of a supervisory character with respect to the Equitable Trust Company and other banks and trust companies which are members of the Federal Reserve System, it is not within the scope of the Board's lawful functions to undertake to determine the rights of the parties in a situation such as you describe, or to require a member bank to take any action in respect thereto. Accordingly, I regret that the Board is unable to advise you as to your rights in the premises. If you feel that your rights have been infringed upon, it would appear that your proper course would be to consult some attorney of your own selection for such advice as you may require with regard to the matter. However, since the Equitable Trust Company is chartered under the laws of the State of Delaware, I am having your letter and inclosure brought to the attention of the Bank Commissioner for that State for his information and for such disposition as he may deem advisable."

Approved unanimously, together with a letter to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"There is inclosed herewith a copy of a letter, with inclosure, which Mr. H. Ralph Ewart, Wilmington, Delaware, addressed

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"to Mr. Eccles under date of November 25, 1935, together with a copy of Mr. Clayton's self-explanatory reply. Your attention is called to the fact that Mr. Clayton advised Mr. Ewart that his letter will be brought to the attention of the Bank Commissioner for the State of Delaware and you are, accordingly, requested to bring that letter to the attention of the Bank Commissioner for such disposition as he may deem advisable.

"Your attention is also called to the fact that the acts about which Mr. Ewart complained indicate the possibility that there may be involved violations of the provisions of section 5209 of the Revised Statutes of the United States. It will be appreciated, therefore, if you will forward to the Board such facts as you may have or as you may be able readily to obtain regarding this matter, together with such views as you may care to express with respect thereto, in order that the Board may determine whether or not the matter should be made the subject of a report to the Attorney General of the United States."

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

"This refers to the voting permit applications of 'Consolidated Securities Company' and 'Anglo National Corporation', both of San Francisco, California, and your letter of October 22, 1935, conveying your recommendation and that of the Executive Committee of your bank that general voting permits be granted to the applicants.

"From the data furnished with this letter and other information available to the Board it appears that Consolidated Securities Company has been voted into liquidation, that it is planned also to place Anglo National Corporation in liquidation and that the subsidiary banks are to be liquidated or sold to The Anglo California National Bank of San Francisco or others, which latter action should terminate the holding company affiliate status of each applicant. It has been noted that pending the completion of this program apparently no action is contemplated to strengthen the capital structure of either applicant. In the circumstances the Board does not feel that consideration should be given to the issuance of general voting permits at this time. Accordingly, the Board hereby authorizes you to issue limited voting permits to such applicants, for the purposes and subject to the conditions stated below, entitling each of such applicants to vote stock which it owns or controls of the following banks:

'The First National Bank of Fairfield', Fairfield, California

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'The First National Bank of Longview', Longview, Washington  
 'Bank of Suisun, National Association', Suisun City,  
 California

'The First National Bank of Weed', Weed, California

'The Winters National Bank', Winters, California

'The First National Bank in Yreka', Yreka, California

"The permits shall authorize the applicants to vote the stock of the above banks for the following purposes:

To elect directors of such banks at the annual meetings of shareholders, or at any adjournments thereof, at any time prior to April 1, 1936, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

"The permits shall be issued only after you have received advice from the applicants, or other information satisfactory to you, showing

(a) that each of the holding company affiliates' subsidiary national banks has complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the Comptroller of the Currency based upon the reports of examination of such bank made to him pursuant to authority conferred by law;

(b) that each of the holding company affiliates' subsidiary State banking institutions has complied, in so far as in your judgment is practicable, with the recommendations or suggestions of the appropriate State supervisory authorities based upon the reports of examination of such bank made to them pursuant to authority conferred by law; and

(c) that each of the holding company affiliates has substantially performed any agreement or agreements heretofore executed by it as a condition to the issuance of a limited voting permit by the Board, or has used its best efforts to do so.

"The Board has authorized the issuance of the limited voting permits on the basis of the facts contained in its files and in reports of examination and files made available by the Comptroller of the Currency and the Federal Deposit Insurance Corporation. If you are aware of any material facts or circumstances, of which the Board has not been advised heretofore, which raise any question as to the propriety of the issuance of limited voting permits to the applicants, or if you feel that additional requirements should be made as a condition precedent to the issuance of limited voting permits in this case, you are requested to furnish to the Board a full statement thereof and to withhold such limited voting permits until you receive further instructions from the Board relative thereto. If you know of no reason why

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"limited voting permits, for the purposes and subject to the conditions above stated, should not be issued, please have the permits authorized herein prepared by counsel for your bank in accordance with the form heretofore used.

"Upon the issuance of such permits please forward to the Board two copies of each such permit and a copy of any letters, telegrams or memoranda submitted by the applicants or their subsidiary banks, or received from any other source, in response to any request which you deem necessary in connection with the foregoing conditions, and advise the Board as to the facts which satisfied such conditions.

"Although the reports of examinations of The Anglo California National Bank of San Francisco and various organizations in this group as of June 13, 1935, and the memorandum to your Executive Committee, prepared by Mr. Sonne under date of October 18, 1935, do not clearly indicate whether or not the applicants are currently paying dividends, the Board has authorized the limited voting permits as above indicated with the understanding that the applicants have complied and will comply with the provisions of Paragraph 7 of the applications for voting permits with respect to the payment of dividends.

"It appears from Mr. Sonne's memorandum of October 18, 1935, that Anglo Safe Deposit Company, Phillips Milling Company and Phillips Milling Company, Inc. are affiliated with both of the applicants. Accordingly, each applicant should deliver to you in proper form Exhibits L and N (Forms P-3 and P-4) covering such corporations, or evidence in writing satisfactory to counsel for your bank that such exhibits are not required by the Board's Regulation P and the directions on the printed forms referred to.

"If the applicants desire to vote the stock which they own or control of any subsidiary member bank for any purposes other than those set forth above, it will be necessary that the Board be furnished at the earliest practicable date with the necessary details of the plan or matters to be voted upon, together with your recommendations concerning any additional requirements which should be prescribed as a condition to the issuance of such limited voting permits for any such purpose. A request for such special permits may be considered as a matter separate and distinct from the issuance of the limited voting permits herein authorized."

Approved unanimously.

Letter to Mr. Clark, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

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"This refers to your letter of September 30, 1935, and its inclosures, relating to the holding company affiliate status of Georgia Railroad and Banking Company, Augusta, Georgia.

"Pursuant to the request of that company, the Board has determined that Georgia Railroad and Banking Company 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. 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 to Georgia Railroad and Banking Company which you are requested to transmit to that bank. A copy of the letter is also inclosed for your files. As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe that this matter should again be considered by it."

Approved unanimously, together with a letter to the Georgia Railroad and Banking Company, Augusta, Georgia, reading as follows:

"This refers to your company's request 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, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"The Board understands that your company is principally engaged in owning and maintaining a railroad which is operated by others as lessees; that your company owns 7,407 of the 7,500 outstanding shares of stock of Georgia Railroad Bank and Trust Company, Augusta, Georgia; that your company does not own or control any other bank stock; that bank stock constitutes a relatively small portion of your company's assets; and that your company is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your company 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,

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"as amended by section 301 of the Banking Act of 1935, and, accordingly, your company is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your 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 your 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."

Letter to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of December 14, 1935, and its inclosures, relating to the holding company affiliate status of The Order of Railroad Telegraphers, St. Louis, Missouri.

"Pursuant to the request of that organization, the Board has determined that The Order of Railroad Telegraphers 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. Accordingly, that organization 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 to The Order of Railroad Telegraphers which you are requested to transmit to that organization. A copy of the letter is also inclosed for your files. As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection it is requested that you advise the Board if, at any time, you believe that this matter should again be considered by it."

Approved unanimously, together with a letter to The Order of Railroad Telegraphers, St. Louis, Missouri, reading as follows:

"This refers to your organization's request 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, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

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"The Board understands that your organization is an unincorporated labor union, organized and operated for the purpose of uniting certain classes of railroad employees for the protection of their interests, to elevate their social, moral and intellectual condition, to promote the general welfare of its membership, to establish a protective fund, and to promote a mutual benefit department for the aid of beneficiaries of deceased members; that your organization owns 4,346 of the 5,000 outstanding shares of stock of The Telegraphers National Bank of St. Louis, St. Louis, Missouri, a bank organized primarily for the convenience and benefit of the members of your organization; that your organization does not own or control any other bank stock; and that your organization was not organized and is not operated for the purpose of managing or controlling banks.

"In view of the above facts, the Board has determined that your organization 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, your organization is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, the facts should, at any time, differ from those set out above to an extent which would indicate that your organization 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 Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, reading as follows:

"Retel December 17 relating to issuance of limited voting permits for 1936 annual meetings of subsidiary banks in cases in which issuance of general permits has not been authorized. It is not necessary for such applicants to file requests for permits entitling them to vote to elect directors and to act upon routine matters and it is not necessary for you to take any action in this connection at this time. Board now has under consideration the authorization of such permits and hopes to advise you this week by letter concerning issuance of the permits. If any such applicant desires permit to vote for other purposes

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"it should file request for such permit and you should forward same to Board together with your recommendations."

Approved unanimously.

Letter to Mr. Benj. Graham, New York, New York, reading as follows:

"Your letter of December 5 to the Securities and Exchange Commission has been referred to the Board.

"Your letter suggests in effect that a bond which is not itself registered on a national securities exchange but which is convertible into a security which is so registered should not be subject to the provisions of Regulation T which prevent brokers from extending credit on unregistered securities for the purpose of purchasing or carrying securities.

"Your attention is called in this connection to the provisions of Section 7(c)(2) of the Securities Exchange Act of 1934 of which a copy is enclosed. Certain provisions of this section in effect forbid any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member to extend or maintain credit to or for any customer on any security (other than an exempted security) which is not registered on a national securities exchange--provided the purpose of the credit is the purpose of purchasing or carrying securities. In these circumstances, you will understand that the provision which you seek to modify is one which has in effect been laid down by Congress.

"In view of the express statutory provisions, the Board is not given the option of exempting such securities from the operation of Regulation T."

Approved unanimously.

Letter to Mr. Harold C. Brown, Harold C. Brown & Company, Inc., Buffalo, New York, reading as follows:

"Reference is made to your letter of December 3 in which you ask for an extension of time within which to collect payment for certain bonds sold by you on November 20.

"The Board understands, through the Federal Reserve Bank of New York, that this matter has now been adjusted to your satisfaction, and that action by the Board is not now necessary.

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"If there should arise in the future a case in which you wish to apply for an extension of time under Regulation T, such request should be made to the Business Conduct Committee of any national securities exchange through whose members any of your transactions are effected. A copy of the Board's Ruling No. 40 which refers to extensions of time is enclosed for your information."

Approved unanimously.

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

"Following the revision of the Board's Regulation D, Reserves of Member Banks, effective January 1, 1936, and the revision of the deposit schedules in the forms to be used by member banks on the next call for condition reports, the reserve computation form (B-15) which was revised by the Board's telegram Trans 2301 of August 27, 1935, has been further revised and a copy of the revised form is inclosed. A copy of Schedules I, J, and K of the form to be used on the next call for condition reports of member banks is also inclosed. It will be noted that as in the past the items in the reserve computation form refer to corresponding items in the call report form.

"It is understood that the semi-weekly, weekly and semi-monthly reports of deposits for reserve purposes, now being rendered to the Federal Reserve banks by member banks, show only two items for each date in the reserve computation period, namely, net demand deposits and time deposits, and that the formula is furnished to member banks merely to illustrate the method of computing required reserves. It would be of considerable value to have figures not only of the amount of net demand deposits subject to reserve but also of the principal items entering into the computations thereof, namely, gross demand deposits, balances due from banks, and cash items in process of collection. Accordingly, it will be appreciated if you will amend the forms which you furnish to member banks for use in rendering their reports of deposits for reserve purposes, beginning with 1936, so as to show for each day the amount of (1) gross demand deposits, (2) balances subject to immediate withdrawal due from other banks, (3) cash items in process of collection, (4) time deposits, conforming to items 1, 2-a, 2-b, and 4, respectively, of the new reserve computation form. Since the additional figures requested are used in computing reserve requirements, no additional burden should be placed upon the

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"member banks in compiling the reports on the new basis. The form should, of course, provide for showing the aggregate of the daily figures for each of the 4 columns, but averages should be computed only of net demand deposits and time deposits as at present. If on any given day a bank's gross demand deposits are less than the allowable deductions, net demand deposits on that date should be taken as zero.

"Inasmuch as the forms for the next call report will not be distributed to member banks until around the end of the year, the new reserve computation formula, which refers to items in the revised call report, should not be distributed until that time."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Merrill  
Secretary.

Approved:

W. S. ...  
Chairman.