A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, January 27, 1936, 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

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letters to Governor Fleming of the Federal Reserve Bank of Cleveland, Mr. Stevens, Chairman of the Federal Reserve Bank of Chicago, and Mr. McAdams, Secretary of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the Cleveland bank on January 24 and by the Chicago and Kansas City banks on January 23, 1936, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated January 21, 1936, from Mr. James submitting a letter dated January 16 from Mr. Sailer, Deputy Governor of the Federal Reserve Bank of New York, which requested approval of changes in the personnel classification plan of the bank to provide for the transfer, change in grade, and reduction in salary range for one position, and for the creation of one new position. The memorandum stated that the proposed changes had been reviewed, and recommended that they be approved.
Letter to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"The Board of Governors of the Federal Reserve System has received your letter of January 13, 1936, and, in accordance with the request contained therein, approves the fees and allowances fixed by your board for the directors of the Federal Reserve Bank of San Francisco and its branches for the year 1936.

"Advice of the Board's action with regard to the allowance fixed for the member of the Federal Advisory Council representing the Twelfth Federal Reserve District during the current year has been sent to you in a separate letter."

Approved unanimously.

Memorandum dated January 27, 1936, from Mr. Morrill stating that the Board had been advised of the selection by the boards of directors of the Federal reserve banks of the following members of the Federal Advisory Council for the year 1936:

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<tr>
<th>District</th>
<th>Name and Affiliation</th>
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<tr>
<td>No. 1</td>
<td>*Thomas M. Steele, President, First National Bank &amp; Trust Co. of New Haven, Connecticut.</td>
</tr>
<tr>
<td>No. 4</td>
<td>*Arthur E. Braun, President, Farmers Deposit National Bank, Pittsburgh, Pennsylvania.</td>
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<tr>
<td>No. 5</td>
<td>*Charles M. Gohen, President, First Huntington National Bank, Huntington, West Virginia.</td>
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<tr>
<td>No. 6</td>
<td>*H. Lane Young, Vice President and Executive Manager, The Citizens and Southern National Bank, Atlanta, Georgia.</td>
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<td>#*Charles E. Rieman, President, Western National Bank of Baltimore, Maryland.</td>
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<td>#*W. S. McLucas, President, National Bank of Detroit, Michigan.</td>
</tr>
</tbody>
</table>
Name and Affiliation

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District No. 8 *Walter W. Smith, President, First National Bank in St. Louis, Missouri.

No. 9 *Theodore Wold, President, Northwestern National Bank and Trust Company, Minneapolis, Minnesota.

No. 10 *W. T. Kemper, Chairman, Commerce Trust Company, Kansas City, Missouri.

No. 11 *J. H. Frost, President, Frost National Bank, San Antonio, Texas.

No. 12 **W. W. Woodson, President, First National Bank, Waco, Texas.


Reappointment

Telegram to the Federal reserve agents at all Federal reserve banks, prepared in accordance with the action taken at the meeting of the Board on January 24, 1936, and reading as follows:

"Referring Board's telegram December 28, 1935, advising of deferment of effective date of subsection (f), entitled 'Interest', of section 1 of revised Regulation Q pending action by Federal Deposit Insurance Corporation on its regulations relating to the payment of interest on deposits by insured nonmember banks, Board is now advised that Federal Deposit Insurance Corporation has issued regulations on this subject containing a definition of interest which is not the same as the definition of interest in Regulation Q. Pending further consideration of this matter by the Board, a date upon which subsection (f) of section 1 of Regulation Q will become effective has not been fixed and status of definition of interest in Regulation Q therefore remains unchanged for the present. All other provisions of Regulation Q are now in effect. Please advise all member banks in your district to this effect without delay."

Approved unanimously.

Letter to Mr. Fletcher, Acting Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:
"This refers to your letter of December 26, 1955, concerning whether it was necessary for Colonial Trust Company, Pittsburgh, Pennsylvania, to submit and publish a report of Arrow Coal Corporation, an affiliate, in response to the Board's call of November 1, 1955.

You state that it was your view that the Board's waiver of the requirement for reports was applicable in this case because the affiliation arose out of a fiduciary relationship. It is understood that Colonial Trust Company held the stock of Arrow Coal Corporation under an agreement whereby Colonial Trust Company was to control such stock until all obligations of Arrow Coal Corporation to Colonial Trust Company were discharged.

Inasmuch as it appears that Colonial Trust Company controlled such stock for its own benefit and not for the benefit of another, the Board is of the opinion that the portion of the waiver to which you refer was not applicable. However, since the failure to submit a report apparently was due to a misinterpretation of the requirements, submission and publication of the report as of November 1, 1955, will not be required at this time."

Approved unanimously.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to your letter dated January 4, 1956, requesting the Board's comments and suggestions with reference to a revised draft of the proposed regulations governing the purchase of investment securities and further defining the term 'investment securities' as used in section 5136 of the Revised Statutes.

In the revised draft, the 'Regulations' prescribed under the authority of section 5136 have been separated from the 'Interpretative Rulings'. Although it is believed that this new arrangement constitutes some improvement over the arrangement of previous drafts which did not make this separation, there still remains the question whether State member banks are required to comply with such 'Interpretative Rulings'.

This matter is of especial concern to the Board; because State member banks very probably will ask the Board for an official statement of its views on the question whether they must comply with such 'Interpretative Rulings', in view
of the provision of section 9 of the Federal Reserve Act to
the effect that State member banks shall be subject to the
same limitations and conditions with respect to the purchas-
ing, selling, underwriting, and holding of investment secur-
ities and stock as are applicable in the case of national
banks under section 5136.

"It appears that sections I and III of the 'Interpreta-
tive Rulings' are not merely interpretations of the law but
contain limitations and restrictions which are not contained
in the statute or implied from its language.

"The Board is advised by its Counsel that section 5136 of
the Revised Statutes authorizes the Comptroller to prescribe
limitations and restrictions on the purchase of investment
securities by national banks for their own account, but not
on the purchase or sale of securities for the account of
others, and that the purchase and sale of securities of the
kinds exempted by section 5136 are not subject to limitations
and restrictions prescribed by the Comptroller. Inasmuch as
section I of the 'Interpretative Rulings' contains limitations
and restrictions on the purchase and sale of securities of
the kinds which are exempted by section 5136, and inasmuch as
section III contains limitations and restrictions on the pur-
chase and sale of securities and stock by national banks upon
the order and for the account of customers, it would appear
that most of the provisions of such sections are not author-
ized by law.

"In the circumstances, if the Board should find it neces-
sary to rule upon the question whether State member banks must
comply with the limitations and restrictions contained in sec-
tions I and III of the proposed 'Interpretative Rulings', the
Board would be faced with the alternative of ruling that State
member banks are not required to comply with them or of issuing
a ruling which it is advised could not be sustained legally.

"Inasmuch as the obvious purpose of the provision of sec-
tion 9 of the Federal Reserve Act, subjecting State member banks
to the limitations and conditions applicable to national banks
under section 5136 with respect to the purchasing, selling,
underwriting, and holding of investment securities and stock,
is to place such banks on a basis of competitive equality with
national banks in this respect, it would seem undesirable for
national banks to be subjected to limitations and restrictions
which the Board is advised cannot be enforced upon State member
banks. It would seem equally undesirable for the Board to rule
that such restrictions and limitations are applicable to State
member banks when it is advised by its Counsel that they cannot
be enforced. Either to make such a ruling and refrain from
enforcing it or to attempt to enforce it and be restrained by
"the courts, would tend to encourage member banks to dis-regard the Board's regulations and rulings.

"In the circumstances, it is earnestly hoped that you will give further consideration to the question whether sec-tions I and III of the proposed 'Interpretative Rulings' should be promulgated.

"At a conference between members of your staff and the Board's staff on October 15, 1935, written suggestions re-garding the proposed regulations were submitted to the mem-bers of your staff informally and further suggestions were con-tained in the Board's letter of November 14, 1935. Inasmuch as those suggestions have already been considered and some of them have been adopted in the draft submitted to the Board in your letter of January 4, 1936, it would seem un-necessary to repeat them.

"Your courtesy in requesting the Board's comments and suggestions with reference to the proposed regulations is greatly appreciated."

Approved unanimously.

Letter to Mr. George S. Starbuck, New York, New York, reading as follows:

"Receipt is acknowledged of your letter of January 11, 1936, stating that you contemplate retiring from the firm of Struthers and Dean and would like to leave $50,000 with that firm upon which they are to pay you six per cent inter-est. It is understood from your letter that you will not continue as a limited or special partner and your retirement will be not only from that firm but from any exchange mem-berships you hold and from the business of a 'broker' or 'dealer' in securities, as those terms are used in the Se-curities Exchange Act of 1934. In such case the present regulations of the Board of Governors of the Federal Reserve System do not prohibit you from lending to that firm the amount of $50,000 or other amount, without collateral or on collateral other than registered securities. The loan may be represented by a note or similar obligation, or it may be on open account, but it must be a bona fide loan and not a deposit of the nature of a banking deposit, such as would be affected by section 21, as amended, of the Banking Act of 1933.

"Further inquiries in connection with this matter should be addressed to the New York Stock Exchange or to the Federal Reserve Agent at the Federal Reserve Bank of New York. If
"you plan to continue in the securities business as a 'broker' or 'dealer', or the assumptions above derived from your letter are incorrect, full facts should be furnished in any further inquiry."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:  

[Signature]

Chairman.

[Signature]

Secretary.