A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 27, 1936, at 11:00 a. m.

PRESENT: Mr. Szymczak, Presiding
Mr. Broderick
Mr. McKee
Mr. Ransom

Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations

Mr. Szymczak was elected Chairman pro tem for the purposes of this meeting.

There was presented a letter just received from the Chairman of the Federal Reserve Bank of Philadelphia under date of February 26, 1936, advising that, subject to the approval of the Board, the board of directors of the bank, at its meeting on that date, appointed Mr. Geo. W. Norris as President of the bank, and Mr. Wm. H. Hutt as First Vice President of the bank, each for a term of five years beginning March 1, 1936, with salary at the rate of $30,000 and $18,000 per annum, respectively.

The action of the board of directors of the Federal Reserve Bank of Philadelphia was discussed and it was agreed unanimously that the Board should adhere to the position previously taken that it will not approve the appointment as Presidents or First Vice Presidents of Federal reserve banks for terms commencing March 1, 1936, of persons who are 70 years of age or who, by the end of the five year term, will have reached that age.

Accordingly, upon motion by Mr. Broderick, the following letter to the Chairman of the Federal Reserve Bank of Philadelphia was approved unanimously.

"At a meeting of the Board of Governors this morning your letter of February 26, 1936, with respect to the appointment of a President and First Vice President for the Federal Reserve Bank of Philadelphia was discussed and I was requested to advise you of the Board's views as follows.

"As your board was advised by Mr. Wayne, the Board of Governors of the Federal Reserve System has adopted for its guidance a general policy under which the Board will not approve for the five year term beginning March 1, 1936, the appointment of anyone as president or first vice president of a Federal reserve bank who is seventy years or more of age or who, before the end of the five years, will have reached that age. It is the intention of the Board to adhere to this policy in connection with all such appointments. In the Banking Act of 1935, Congress provided for the reorganization of the Board of Governors, and the President, in discharging his responsibility for making appointments under the Act, adopted a policy of nominating for Board membership persons who were not more than sixty years of age. This Act has placed upon the Board the responsibility of approving for terms of five years the appointments of presidents and first vice presidents of the Federal reserve banks. In discharging this responsibility the Board likewise felt that it should give consideration to the factor of age, especially as the law also provided for a reorganization at the Federal reserve banks by creating the office of President to come into existence on March 1, 1936, and by designating the President as the chief executive officer.

"The Board further took into consideration the fact that the Federal reserve banks had proposed and adopted voluntarily a retirement plan, approved by the Governors of the Federal reserve banks, which established the principle in the permanent operation of the System, not only of voluntary retirement at sixty-five but also of mandatory retirement of officers and employees at a maximum age of seventy years. In this connection it was also pointed out that the boards of directors of the Federal reserve banks are not authorized to make appointments of presidents or first vice presidents for any term less than the five years prescribed by law and that the Board of Governors is without authority to approve such appointments for a shorter term. In these circumstances the Board felt that it would not be justified in approving the appointment of any person as president or first vice president who would be

"subject, under this retirement plan, to mandatory retirement before the expiration of the five year term. It was the opinion of the Board that, as the law specifically provides that these appointees are to be the chief executive officers of the Federal reserve banks they should be younger men who could be expected not only to develop but also to continue for the entire term for which they would be appointed, an active, constructive and vigorous administration of the affairs of the banks with a high degree of efficiency, and who would be able to make such changes in the organizations of the respective banks as would enable them to meet new conditions in the most effective manner.

"The Board regrets that, for the reasons set forth above, it cannot approve the appointment of Mr. George W. Norris, who is now 71 years of age, as President of the Federal Reserve Bank of Philadelphia, for a period of five years beginning March 1, 1936.

"The Board has also requested me to advise you that it has deferred action on the appointment of Mr. Hutt as First Vice President for the term beginning March 1, 1936."

The following letter to the Chairman of the Federal Reserve Bank of Philadelphia was also approved unanimously:

"Reference is made to your letter of February 26, 1936, advising that the board of directors of your bank, at its meeting on that date, elected the following officers of the bank, and, subject to the approval of the Board of Governors of the Federal Reserve System, fixed their salaries at the rates shown below for the period from March 1 to December 31, 1936, inclusive:

John S. Sinclair, Vice President	$15,000
C. A. McIlhenny, Vice President, Cashier and Secretary	13,200
W. J. Davis, Assistant Vice President	10,000
Wm. G. McCreedy, Assistant Vice President	7,500
L. E. Donaldson, Assistant Vice President	5,000

"The Board of Governors has requested me to advise you that it approves the salaries fixed by your directors for the five officers listed above for the period stated. You were advised in the Board's letter of January 31 that the salaries fixed by your directors for the year 1936 for Messrs. James M. Toy, S. R. Earl, and Glenn K. Morris, Assistant Cashiers, were approved by the Board."

Mr. Bethea stated that just prior to this meeting, Mr. Peyton,

Chairman and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, had called him on the telephone and had stated that the telegram advising of Mr. Geery's appointment as Class "C" director and designation as Chairman and Federal Reserve Agent had been received, and that he (Mr. Peyton) desired to know whether the bank was now at liberty to make an announcement of the appointment of Mr. Peyton as President and of the designation of Mr. Geery.

Mr. Bethea was requested to advise Mr. Peyton that there was no objection on the part of the Board to the bank giving out information with regard to the appointments.

Mr. Broderick stated that he proposed to bring up for discussion at the meeting on Tuesday, March 3, 1936, (1) the fixing of a definite time for the issuance of Regulation "U", and (2) the question of excess reserves and open market policy.

At this point Messrs. Thurston, Wyatt and Smead left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Letter to Mr. Delano, Deputy Chairman of the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated February 26, 1936, from Mr. Morrill stating that Mr. Broderick had requested him to submit to the Board a recommenda-

tion that Mr. L. G. Ficks, formerly secretary to Mr. Miller, be appointed private secretary to Mr. Broderick, with salary at the rate of $3,000 per annum, effective immediately.

Approved unanimously.

Memorandum dated February 24, 1936, from Mr. Smead, Chief of the Division of Bank Operations, recommending, with the concurrence of Mr. Paulger, Chief of the Division of Examinations, that Mr. Mortimer B. Daniels, an assistant Federal reserve examiner, be transferred from the Division of Examinations to the Division of Bank Operations, with no change in his present salary at the rate of $3,800, effective immediately, and that his title be changed to "Technical Assistant".

Approved unanimously.

Letter to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, reading as follows:

> "Referring to Mr. Powell's telegram of February 24, the Board approves the reappointment by the Board of Directors of the Federal Reserve Bank of Minneapolis of Messrs. Sheldon V. Wood, John M. Bush, C. O. Follett, Harvey C. Jewett, and Albert L. Miller as members of the Industrial Advisory Committee for the year ending February 28, 1937."

Approved unanimously.

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

> "This will acknowledge receipt of your letter of February 20, 1936, quoting a resolution passed by the board of directors of your bank with respect to the election of a member and alternate to the Federal Open Market Committee.
>
> "The resolution contemplates the election of such member and alternate to the Committee with the understanding that

"such member and alternate shall confer with the directors of your bank and the Federal Reserve Bank of New York as to all questions of policy affecting open market operations and with the understanding that, if at any time the views of the boards of directors of the Federal Reserve Banks of Boston and New York with respect to such policy are not in agreement, a joint meeting of said boards or committees appointed by said boards shall be held to consider such questions of policy and to reach an agreement with respect thereto.

"According to the resolution, the purported election is also subject to and conditioned upon the adoption of a similar resolution by the board of directors of the Federal Reserve Bank of New York.

"It is the view of the Board that the attempted election of a member to the Federal Open Market Committee subject to conditions as imposed in the instant resolution is violative of the spirit and letter of section 12A of the Federal Reserve Act as amended by the Banking Act of 1935.

"Under date of February 25th you were furnished with a copy of an opinion by one of the Board's Assistant General Counsel concurred in by the Board's General Counsel to the effect that representatives of the Federal Reserve banks may not be elected to membership upon the Committee with limited authority to act only in accordance with the instructions of the boards of directors electing such members.

"Inasmuch as it was apparently the intention of the board of directors of your bank not to elect a member to the Committee unless such member should be subject to the resolution as adopted, it is the Board's view that the boards of directors of the Federal Reserve Banks of New York and Boston should hold another election for the purpose of selecting a member and alternate unrestricted in authority to serve in accordance with the true intent of section 12A of the Federal Reserve Act as amended."

Approved unanimously.

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

"Reference is made to Mr. Dillistin's letter of February 8, 1936, relative to the absorption of 'The Montclair National Bank', Montclair, New Jersey, by the 'Montclair Trust Company', Montclair, New Jersey, and the establishment of a branch of the trust company at the former location of the national bank, which

"was effected January 9, 1936.

"It appears, from the information submitted with Mr. Dillistin's letter and a review of the latest reports of examination of the two institutions, that the transaction has not resulted in any material change in the general character of the assets of the Montclair Trust Company or broadening in the functions previously exercised by it, within the meaning of the general condition under which the trust company was admitted to the Federal Reserve System. The Board, therefore, in accordance with your recommendation, will interpose no objection to the absorption and the establishment of the branch, provided that the transaction has the approval of the appropriate State authorities and that your counsel is satisfied as to the legal aspects involved.

"It is understood that one of your examiners will participate in the next examination of the trust company to be made by the Department of Banking and Insurance of New Jersey, and that his report will include information relative to any undesirable assets acquired through the absorption, which remain in the bank, as well as a statement regarding any charge-offs in the assets so acquired, which may have been made prior to the examination."

Approved unanimously.

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

"Receipt is acknowledged of Mr. Dillistin's letter of February 10, 1936, with regard to the acquisition by the Brooklyn Trust Company, Brooklyn, New York, on March 2, 1934, of 50 shares of stock in the Fresh Air Recreation Company, Inc.

"It is understood from your letter that these shares and 450 shares previously purchased were acquired under the terms of an agreement entered into by the Brooklyn Trust Company in February, 1932, to protect its own interest and its interest as fiduciary, and that your counsel is of the opinion that, while the acquisition of such 50 shares technically may have been a violation of section 9 of the Federal Reserve Act, it might be justified on the ground that it gave effect to an undertaking made prior to the enactment of the Banking Act of 1933 or that it was necessary to reduce loss or to eliminate possibility of loss to the bank.

"In the light of these facts and in view of the other circumstances involved, together with the recommendation of your office in the premises, the Board will take no action

"with respect to the matter at this time. However, it is assumed that, in view of the reasons for the acquisition of the stock of the Fresh Air Recreation Company, Inc., the Brooklyn Trust Company will dispose of such stock as soon as it is reasonably practicable to do so. Please advise the bank of the Board's position in the matter."

Approved unanimously.

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

"This refers to your letter of February 15, 1936, presenting certain questions arising under the provisions of Regulation Q.

"You ask to be advised of the Board's views upon the question whether deposits of municipalities and subdivisions or departments thereof, such as sinking fund commissions, boards of education, and police and fire departments, and deposits of funds of a municipality set aside for playground and other similar purposes, may be classified as savings deposits under the definition contained in section 1(e) of Regulation Q. In the opinion of the Board, deposits of the type described above may not be classified as savings deposits within the meaning of section 1(e) of Regulation Q because municipal corporations may not be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, nor may it be considered that the beneficial interest in deposits of such corporations is in one or more individuals.

"The Board is also of the opinion that a deposit in the name of a municipality consisting of funds given to the municipality for a charitable purpose, such as the erection of a memorial gate, may not be classified as a savings deposit. The Board believes that a construction of the regulation which would permit funds of a municipal corporation held for a charitable purpose to be considered as funds held for one or more individuals on the theory that the public consists of a group of individuals would open the door to evasions of the regulation. As indicated in your letter, such a construction would seem to involve an extension of the language of the regulation, which bases the privilege of maintaining a savings deposit upon the nature of the depositor or the person holding the beneficial interest in the deposit rather than upon the purpose for which the funds are to be used.

"With regard to deposits of close corporations operated

"for profit, where all of the stock of the corporation is owned by one individual or by members of a family, the Board agrees with your opinion that such deposits may not be classified as savings deposits under the definition contained in section 1(e) of Regulation Q.

"You also present the following question arising under section 4(d) of Regulation Q: If a time deposit which has been such for two and one-half months is then paid before maturity, and interest has actually been paid by check at the end of each thirty day interest period or has been credited to the depositor on the books of the bank at the end of each thirty day interest period, should the member bank, on paying the deposit before maturity, deduct from the principal of the deposit the amount of the interest so paid or credited?

"In the opinion of the Board the above question should be answered in the negative. Section 4(d) of Regulation Q provides for the forfeiture of 'accrued and unpaid' interest, but it is the view of the Board that interest which has been paid by check or credited to a depositor's account at the end of a regular interest period should not be considered as 'accrued and unpaid' interest and, therefore, such interest is not subject to the forfeiture."

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 February 3, 1936, and previous correspondence concerning the withdrawal by Mellbank Corporation, Pittsburgh, Pennsylvania, of its application for a voting permit.

"You state that you have been advised that on January 3, 1936, the board of directors of Mellbank Corporation declared a liquidating dividend of all bank stocks owned by that corporation except stocks of banks which have ceased operations and are in liquidation, and that apparently the holding company affiliate status of Mellbank Corporation has been terminated. While it is not so stated, it is assumed that such bank stocks have been distributed to the shareholders of Mellbank Corporation and that that corporation no longer owns or controls such stocks or the election of the directors of any member bank.

"However, without definitely determining whether the holding company affiliate status has been terminated, the Board will give no further consideration to the application of Mellbank Corporation in view of the advice from that corporation that it

"desires to withdraw such application. In its letter of January 13, 1936, Mellbank Corporation requested that the information and agreements previously furnished to the Board in connection with such application be returned. The application and all agreements and other documents pertaining thereto constitute a part of the Board's records and must be retained by it. Please advise Mellbank Corporation in accordance with this letter."

Approved unanimously.

Letter to Mr. Augustus H. Sutton, Oil City, Pennsylvania, reading as follows:

"Reference is made to your letter of February 14 addressed to the Securities and Exchange Commission.

"The effect of the Board's recent increase in margin requirements, in the case of accounts containing securities to which the change applied, was to reduce the amount of credit that the broker may extend in the account on these securities, and thus to limit more narrowly, as you appear to have been advised by your broker, the amount of cash which the broker might permit the customer to withdraw from the account on or after February 1. According to the Board's Regulation T, any amount may be withdrawn from an 'unrestricted' (fully margined) account which does not make the account a 'restricted' (undermargined) account. The recent change in the margin requirements may have the effect of making some accounts 'restricted' which were previously 'unrestricted'. Persons with such accounts may, however, enable themselves to withdraw money from such accounts by reducing to a sufficient extent the commitments they are carrying on margin therein.

"It is to be expected, no doubt, in case of any increase in margin requirements effective on some given date, of which notice has been given in advance, that some customers will avail themselves of the temporary opportunity to withdraw cash, and by so doing to increase the amount of credit that they are obtaining on securities from brokers. Considering, however, the Board's responsibilities under the Securities Exchange Act of 1934, 'to prevent the excessive use of credit for the purpose of purchasing or carrying securities', it would seem to be impossible to increase the margin required for carrying securities without restricting the opportunity of customers to withdraw cash from their accounts after the effective date of the change."

Approved unanimously.

Letter to Mr. Edgar A. Nathan, New York, New York, reading as follows:

"This is in answer to your letter of February 11.

"We understand from your letter that the account to which you refer contains securities bought before February 1, which were, prior to that date, subject to a 45 percent margin requirement. We do not understand, however, how the margin requirement now applicable to these securities can depend in any way upon whether or not you should undertake to withdraw cash from the account. Since Febuary 1, when the new margin requirements went into effect, the 55 percent requirement applicable to securities of a certain description applies to all securities of this description that are now being carried in accounts, regardless of when such securities were purchased and regardless of whether the account, under the Board's Regulation T, is an 'unrestricted' (fully margined) account or a 'restricted' (undermargined) account. A copy of the Supplement which contains the new margin requirements is enclosed for your information.

"If the account is a 'restricted' account, from which withdrawals are strictly limited by the regulation, the customer may put himself in position to withdraw cash therefrom by reducing to a sufficient extent his commitments in the account.

"Your letter seems to imply, if we interpret it correctly, some misunderstanding of the nature of the Board's margin rules. These rules differ from those to which the public is more accustomed in that they do not require that an account be kept at all times fully margined, as by the sale of securities when the margin has become impaired, but in lieu of this requirement merely restrict withdrawals from the account and certain transactions in the account which would either increase the customer's indebtedness in the account or further impair the margin therein."

Approved unanimously.

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

"It is regretted that the pressure of business has prevented an earlier reply to your letter of October 26, 1935, regarding the interpretation of the Board's letter of September 11, 1935 (X-9322) in which the Board stated that, since the date of the enactment of the Banking Act of 1935, State member banks are not permitted to purchase 'securities' which are not

"'investment securities' within the meaning of Section 5136 of the Revised Statutes and the regulations of the Comptroller of the Currency issued thereunder.

"That conclusion was predicated upon the fact that, from all of the information presented for the Board's consideration, it appeared that the particular notes described in the letter were securities and that the attempt to treat them as loans or discounts was merely an attempt to evade the provisions of Section 5136 of the Revised Statutes. The ruling was to the effect that notes which are actually securities may not be acquired by member banks except in accordance with the provisions of Section 5136 of the Revised Statutes. It had no applicability to notes which are not securities and which are acquired by banks in good faith as loans and discounts in the ordinary course of their banking business.

"On the question whether or not the notes constituted securities, the ruling was purposely confined to the facts of the particular case before the Board and no attempt was made to lay down any general rules for use in determining whether or not particular issues of notes constitute securities. Furthermore, it is believed that no general rules for this purpose can be laid down and that each case must depend upon its own facts. In the case in which the above ruling was made, the facts that the notes were in the usual form of corporate bonds or notes payable to bearer, that interest coupons payable to bearer were attached, and that the notes were issued in denominations of $100,000 and $50,000 but were interchangeable for notes of smaller denominations, all tended to show that it was the intention of the parties to place those obligations in such form that they could easily be handled and distributed as securities; but no one of these factors was deemed to be controlling or conclusive.

"The Board agrees with your view that the fact that a series of notes held by a number of different banks are secured by collateral which is pooled for the benefit of all of the banks or are issued pursuant to an arrangement under which pro rata payments will be made to the several banks involved is not alone sufficient to make it necessary to classify such notes as securities; and nothing in the ruling should be construed as preventing banks which make joint loans in good faith from utilizing convenient arrangements of this kind regarding the collateral or pro rata payments on the notes, provided the obligations evidencing such loans do not, under all of the circumstances of the case, constitute securities. Nothing in the ruling was intended to interfere with the sale of commercial paper by brokers to banks, even though the collateral may be pooled with a trustee for the benefit of the holders of the individual notes."

Approved unanimously.

Letter to Mr. A. M. Smith, Division of Bookkeeping and Warrants, Treasury Department, reading as follows:

"Referring to the request of the Secretary of the Treasury, dated April 2, 1920, according to the daily balance sheets of the Federal Reserve banks on file with the Board of Governors of the Federal Reserve System, no Federal Reserve bank had a deficiency in deposit reserves during the period July 1, 1935 to December 31, 1935.

"Inasmuch as no Federal Reserve bank has had a deficiency in deposit reserves since March 1933 and, as total reserves are now more than double required reserves, your advice will be appreciated as to whether it would be satisfactory to the Treasury Department for the Federal Reserve banks to furnish the Treasury a certified statement once a year instead of monthly as at present with respect to deficiencies, if any, in their deposit reserves. It would be understood, of course, that should a deficiency occur in deposit reserves of a Federal Reserve bank in any monthly period a report thereof would be submitted at the end of the month in which the deficiency occurred and the penalty for such deficiency paid at that time."

Approved unanimously.

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

"Reference is made to your letter of February 10 with regard to the pledge of Federal Reserve bank cashier's checks by the Union Bank & Trust Company, Helena, Montana, against funds deposited in that bank by the Treasurer of the State of Montana.

"It is noted that the State Treasurer may deposit funds at banks only on the pledge of collateral, that under present conditions it is difficult and undesirable for banks to furnish surety bonds, and that the subject bank has made an effort to solve the problem by accepting deposits from State officials and pledging as security therefor cashier's checks of the Helena Branch of the Federal Reserve Bank of Minneapolis. It is noted further, on reference to the bank's condition report as of December 31, 1935, that the amount of Federal Reserve bank cashier's checks pledged exceeds the amount of securities remaining unpledged. In these circumstances, the Board sees no objection to the use of Federal Reserve bank cashier's checks for the purpose indicated.

"Insofar as condition reports on Form 105 are concerned, the existing instructions provide that printed items must not be amended in any manner, this requirement being prescribed with a view to insuring uniformity in the reports rendered and published by all State bank members. In view of the facts in this case, however, it will be satisfactory for the bank to add the words 'Includes Federal Reserve bank cashier's checks for $_____' after the caption 'Other assets' and to insert the item 'Federal Reserve bank cashier's checks $_____' as an additional memorandum item following item 33.

"In this connection, it will be appreciated if you will advise the Board with regard to the apparent inconsistency between the figures reported by the bank against Asset item 4 and Memorandum item 33, in that the amount of 'Other bonds, stocks, and securities' reported among assets is less than the amount shown as pledged. Both figures should, of course, represent the book value of the securities."

Approved unanimously.

Memorandum dated February 25, 1936, from Mr. Vest, Assistant General Counsel, stating that the Chairman of the Federal Reserve Bank of Chicago had forwarded to the Board for its information a draft of a revision of the bank's by-laws which had been submitted to the board of directors of the bank; that the letter from the Chairman did not request the Board's views with respect thereto; and that it was assumed that the Board would not desire to make any suggestions regarding the by-laws of the bank other than those contained in its letter on the subject of February 14, 1936. The memorandum also stated that the changes suggested in the by-laws of the Chicago bank were largely of a detailed character and did not appear to be of especial importance from the standpoint of the Board except in so far as they relate to the suggestions contained in the Board's letter of February 14.

Noted.

Letter to the George A. Fuller Company, Washington, D. C., reading as follows:

"This refers to your letter of February 21, 1936, received by the Board of Governors on February 24, in which you request an extension of the contract time for the completion of the building for the Board on account of a strike which you advise started February 19.

"Your attention is invited to the fact that, while the contract between your company and the Board of Governors provides that the Board, under certain conditions and for certain stated reasons, may extend the time stated in Article 4 of the contract for the completion of the building, it does not contain any provision for extensions of time on account of labor disputes or strikes.

"It is hoped that you will be able to get this labor difficulty settled at an early date."

Approved unanimously.

Thereupon the meeting adjourned.

Assistant Secretary.

Approved:

Chairman pro tem.