

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, February 28, 1936, at 10:30 a. m.

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

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary

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

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on February 10, 11 (two meetings), 12, 13, 14 and 17, 1936, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System with the Federal Advisory Council held on February 11 and 12, 1936, were approved unanimously.

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

Letters to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, and to Mr. Clark, Secretary of the Federal Reserve Bank of Atlanta, stating that the Board approves the establishment without change by the New York bank on February 27, 1936, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

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"Your letter February twentieth. Board approves appointment of Joseph W. Clifford, Parke R. Elmer and A. Chester Walton as examiners in the Federal Reserve Agent's department of your bank with the understanding that arrangements will be made immediately by Mr. Walton to liquidate his indebtedness to the State member bank."

Approved unanimously.

Memorandum dated February 20, 1936, from the Division of Examinations reviewing the report of examination made as of November 12, 1935, of the head office of The Chase Bank, New York, New York, a corporation organized in 1930 under section 25(a) of the Federal Reserve Act, by an examiner for the Board. The memorandum stated that the examination developed no matters which it was felt necessary to bring to the attention of The Chase Bank, and submitted for approval the following letter to Mr. Winthrop W. Aldrich, Chairman of the Board of Directors of The Chase Bank:

"There is inclosed a copy of the report of examination of the Head Office of The Chase Bank, New York, New York, made as of November 12, 1935, by an examiner for the Board of Governors. The figures pertaining to the foreign branches shown in the consolidated statement of condition were obtained from reports submitted by the branches."

Approved unanimously.

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

"In accordance with Regulation H as revised effective January 1, 1936, the standard condition of membership regarding maintenance of an adequate capital structure as now prescribed reads as follows:

- '2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, and its capital shall not be reduced except with the permission of the Board of Governors of the

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"Federal Reserve System.'

"Footnote 8 of the Regulation further provides:

- '8. If at any time, in the light of all the circumstances, the aggregate amount of the bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the bank's aggregate deposit liabilities and other corporate responsibilities.'

"Prior to the adoption of the new standard condition of membership quoted above, the following standard condition of membership relative to capital structure had been prescribed:

- '15. Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities, and, in some circumstances, should be more than one-tenth of such amount.'

"In the Board's letter dated June 30, 1933 (X-7469), it was stated that the letter addressed to banks advising of the Board's approval of their applications for membership would contain the following comments regarding condition of membership numbered 15:

'In connection with condition numbered fifteen above and in the absence of any special action by the Board, if in any period of twelve months ending on the thirtieth day of November the average amount of deposit liabilities of the bank during such period as determined on the basis of reports made by the bank to the Federal Reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, the Board will expect that the bank, as soon as possible and within the next succeeding six

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'months, will increase the aggregate amount of its paid-up and unimpaired capital and unimpaired surplus to an amount at least equal to ten per cent of the average amount of its deposit liabilities during such twelve months.'

"In letter X-7469 it was also stated that while each bank subject to condition of membership numbered 15 was expected to comply with its provisions without any special action on the part of the Board, the Board would, in special circumstances and upon the specific recommendation of the Federal Reserve Agent, consider whether, in view of all of the facts involved in the particular case, it would be justified in not requiring the bank to increase its capital and surplus to an amount at least equal to one-tenth of its deposit liabilities, or whether, on the other hand, a larger proportion of capital and surplus should be required in order to afford adequate protection because of special conditions existing in the case of the particular bank under consideration.

"The revision of former standard condition of membership numbered 15 does not reflect in any degree whatsoever a modification of the Board's position that it is essential that member banks maintain a sound and adequate capital structure. It is anticipated, however, that the condition, as revised in the Board's existing Regulation H, while maintaining the fundamental principle, will provide the flexibility necessary to facilitate administration. The Board feels, therefore, that a compliance by each State member bank subject to former condition numbered 15 with the portion of the new standard condition of membership numbered 2 relating to the adequacy of its capital structure and with footnote 8, set forth in Regulation H, should be considered a compliance with the former condition numbered 15. In any case in which a member bank subject to condition numbered 15 complies with such portion of the new condition numbered 2 and with footnote 8 of Regulation H the detailed requirements contained in condition numbered 15 and in the Board's letter X-7469 regarding such condition may be disregarded. In the circumstances, it will be appreciated if you will advise each such State member bank in your district accordingly.

"It is requested that, annually as of the close of the year, the Federal Reserve Agents review the condition of each member State bank subject to the new standard condition of membership numbered 2 or former standard condition of membership numbered 15 and advise the Board of any situation in which it appears that the net capital and surplus funds of any such bank are inadequate under the provisions of the condition of membership, supplementing such advice with a brief statement as to the facts of each case and a recommendation as to the

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"action which should be taken. Of course, if, during the year, any situation should develop which would require more immediate action under the conditions of membership in question, the Federal Reserve Agents are requested to advise the Board fully as to the situation and submit a recommendation as to the action which should be taken in the matter.

"It is expected that the Federal Reserve Agents will continue to keep themselves currently advised as to the condition of all State member banks in their districts, whether or not subject to the new standard condition numbered 2 or former standard condition numbered 15, and in the case of any State member bank which appears to be in need of additional capital will take such action as may be appropriate in the circumstances, advising the Board fully in the premises."

Approved unanimously.

Letter to Governor Harrison of the Federal Reserve Bank of New York, as Chairman of the Federal Open Market Committee, prepared in accordance with the action taken at the meeting of the Board on February 26, 1936, and reading as follows:

"Chairman Eccles has brought to the attention of the members of the Board the extract from the minutes of the meeting of the executive committee of the Federal Open Market Committee held on February 26, 1936, which reads as follows:

'The Committee were unanimously of the opinion that, if, in connection with March financing, the Treasury offers securities in exchange for Treasury notes maturing April 15, the \$132,386,000 of these notes in system account should be sold in the market and replaced to the extent of about \$50,000,000 with Treasury bonds and the balance with Treasury notes or bills. It was understood, however, that, in view of prospective changes in the organization of the open market committee, this proposal would be submitted to the Board of Governors of the Federal Reserve System and carried through only if they were in agreement.'

"In view of the fact that the Federal Open Market Committee, as it will be constituted after March 1, 1936, will not be organized in time to consider the matter referred to above, the Board has requested me to advise you that if, in connection with March financing, the Treasury offers securities in exchange for

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"Treasury notes maturing April 15, 1936, the Board approves the sale in the market of the \$132,386,000 of these notes held in the System account and their replacement with not to exceed \$50,000,000 of Treasury bonds and the balance with Treasury notes or bills."

Approved unanimously.

Telegram to Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, prepared in accordance with the action taken at the meeting of the Board on February 26, 1936, and reading as follows:

"Board has requested me to advise you that it appreciates the opportunity granted by Federal Advisory Council for consideration of recommendations submitted by Council at meeting with Board on February 12, 1936, and that it has no objection to publication by Council of recommendations if it desires to do so."

Approved unanimously.

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

"Referring Board's wire February 6, 1936, (X-9483) an inquiry has been made as to whether an executive officer of a member bank who has reported his indebtedness to other banks to the board of directors of the member bank of which he is an executive officer, in accordance with the requirements of section 22(g) of the Federal Reserve Act as amended by the Banking Act of 1935 and subsequent to August 23, 1935, date of enactment of the Banking Act of 1935, but prior to January 1, 1936, the effective date of the Board's Regulation O, is required to make a report to board of directors of the member bank covering the same indebtedness, as provided in section 5 of Board's Regulation O. The report required by section 5 of the Board's regulation would include certain information in addition to that specifically required to be included in such a report by the terms of section 22(g), and the regulation contemplates that reports in accordance with its requirements should be made covering any indebtedness of an executive officer of a member bank to other banks which was in existence on January 1, 1936. However, in any case where the report made to the board of directors prior to

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"January 1, 1936, was made in conformity with the requirements of Section 22(g) as amended by the Banking Act of 1935, contains the name of the other bank to which the executive officer of the member bank is indebted and the member bank feels that it is not necessary to obtain a new report, the Board will not insist that a new report be made under the provisions of section 5 of Regulation O covering such indebtedness, provided that the requirements of such section regarding the recording, retention, and availability to duly authorized examiners of reports of this kind are complied with."

Approved unanimously.

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

"The following telegram dated February 26 received from Devlin and Devlin and Diepenbrock, attorneys, Sacramento, California.

'The press today states Charles R. Blythe San Francisco investment banker will head large nationwide syndicate according to tentative plans and will direct sale of securities issued by a reorganized American Trust Company of San Francisco. We represent parties who have brought suits against American Trust Company for large sums of money which were decided adversely to our clients in the lower court but appeals have been taken and perfected to the Supreme Court. If these appeals are successful judgments will probably result against American Trust Company. We desire to protest against confirmation of any sale until all the facts are laid before you and we have opportunity of considering what full and adequate security will be given to protect our clients by setting up reserves or otherwise.'

"The following reply was forwarded today.

'Nothing has been submitted to the Board regarding the matter referred to in your telegram February 26 re American Trust Company, San Francisco. It is suggested that if you desire to make any further representations to the Board in the matter you submit such representations through the Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, the Board's representative in that district.'

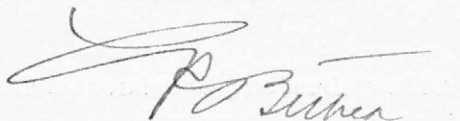
"Please keep the Board advised as to developments in the situation."

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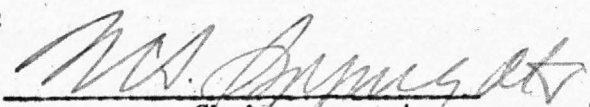
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Approved unanimously.

Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:

  
Chairman pro tem.