

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 3, 1936, at 3:30 p. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Morrison

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:

Memorandum dated February 28, 1936, from Mr. Wyatt, General Counsel, submitting the resignation of Miss Winnie Turner as a stenographer in the legal division, to be effective at the close of March 15, 1936, and recommending that the Board accept Miss Turner's resignation effective as of the close of business on that date.

Accepted.

Memorandum dated February 28, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Mr. Frank R. Garfield, a research assistant in the Division, be granted an additional leave of absence with pay on account of illness for a period of thirty days beginning March 6, 1936.

Approved unanimously.

Chairman Eccles presented for the record the following letter which he had addressed today to Mr. Burke, Acting Chairman of the Federal Reserve Bank of Cleveland, in accordance with the authority granted at

3/3/36

-2-

the meeting of the Board on February 18, 1936:

"This letter is in confirmation of our telephone conversation during which I advised you of your designation by the Board of Governors of the Federal Reserve System as Chairman of the board of directors of the Federal Reserve Bank of Cleveland and as Federal Reserve Agent for the remainder of the current year; the designation to become effective when you have executed the usual oath of office and a corporate surety bond in the amount of \$100,000. When executed, the bond should be examined by counsel for the Federal Reserve Bank of Cleveland to see that it is executed in accordance with the rules printed on the reverse side of form of bond 181, and forwarded immediately to the Board for approval. It will be appreciated if you will forward to the Board for its records a written confirmation of your acceptance of the designation.

"The Board appreciates very much your willingness to undertake this important public service and has requested me to advise you of its desire to cooperate with you in every possible way in the discharge of the duties incident to the office. In accordance with your request, the Board has fixed no salary for you as Chairman and Federal Reserve Agent, with the understanding that the position is to be on a strictly honorary basis.

"Mr. Fletcher has been acting as Federal Reserve Agent at the bank under an arrangement made on November 28, 1934, pending the selection of a Chairman and Federal Reserve Agent. Your designation to serve in that capacity will terminate that arrangement and Mr. Fletcher will continue as Assistant Federal Reserve Agent."

"With kind personal regards, I am"

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 26, 1936, and in accordance with the request contained therein, the Board will interpose no objection to the retention during the balance of the year 1936 of those examiners and assistant examiners in the Federal Reserve Agent's department of your bank whose appointments had been approved by the Board on a temporary basis. It has been noted that during the latter part of the year another survey will be made of your examining

3/3/36

-3-

"personnel requirements and recommendations will be submitted regarding the transfer to a permanent basis of any such examiners or assistant examiners whose services will be needed for a further indeterminate period."

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 25, 1936, with its inclosure, and, in accordance with your request, the Board approves the use of the employees listed to lend clerical assistance to your regular examiners in examinations of State member banks, and the designation of such employees as special assistants to examiners. It is understood, of course, that none of these employees will be transferred permanently to examining work without the Board's approval."

Approved unanimously.

Memorandum dated February 26, 1936, from the Division of Examinations, submitting a report of examination, made as of January 28, 1936, by an examiner for the Board, of the First of Boston International Corporation, a corporation which has entered into an agreement with the Board pursuant to the provisions of Section 25 of the Federal Reserve Act. The memorandum reviewed the report of examination; stated that the examination developed no matters which it was felt necessary to bring to the attention of the First of Boston International Corporation, and submitted for approval letters to Mr. B. W. Trafford, Chairman of the Board of Directors of the First of Boston International Corporation, to Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, and to Mr. Case, Federal Reserve Agent at the Federal Reserve Bank of New York, transmitting copies of the report of examination. The letter

3/3/36

-4-

to Mr. Trafford read as follows:

"There is inclosed a copy of the report of an examination of the First of Boston International Corporation, Boston, Massachusetts, made as of January 28, 1936, by an examiner for the Board of Governors of the Federal Reserve System. It will be appreciated if you will acknowledge the receipt of the report."

Approved unanimously.

Telegraphic reply to a letter from A. E. Masten & Company, Pittsburgh, Pennsylvania, requesting a ruling on the following points:

1. Is it permissible to segregate accounts in the same manner as was done when the original Regulation T went into effect? By this we mean, are we permitted to carry securities held before February 1st on 45% margin in a restricted account and then, for the same customer, open up an account #2 which will be confined to new transactions and will be strictly on a 55% margin basis?
2. Assuming permission is granted to carry two accounts, as outlined above, can account #2 be handled entirely independent of the #1 restricted account so that money may be drawn down against account #2 so long as such withdrawals do not carry the margin below 55%?

The reply read as follows:

"Reference is made to your letter of March 2. Answer to first question is in the negative so that answer to second question becomes unnecessary."

Approved unanimously.

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

"Reference is made to your letter of February 5 regarding the position of Whitaker & Company with respect to reports on Form F. R. 240, and also to the Board's letter to you dated February 20 regarding the Board's action to

3/3/36

-5-

"require reports on Form F. R. 240 semiannually instead of monthly from certain member firms of securities exchanges.

"It appears from your letter and its enclosures that Whitaker & Company, a member of the St. Louis Stock Exchange, transacts a business in securities which involves some extension of credit to customers in connection with some transactions. If this is the case, the firm is required to file reports on Form F. R. 240.

"Under the Board's action as reported in the letter of February 20, reports of Whitaker & Company will henceforth be due semiannually instead of monthly, with the next report due as of June 30, 1936. It is believed that this change to a semiannual basis will minimize any inconvenience to the firm arising from the filing of reports."

Approved unanimously.

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

"This refers to former Deputy Comptroller Awalt's letter of January 17, 1936, in which he inquires whether the indorsement of a note or other evidence of indebtedness by an executive officer of a member bank, which is purely for the accommodation of a third party and from which the executive officer derives neither directly nor indirectly any financial benefit, is included within the definition contained in section 1(c) of the Board's Regulation O.

"Section 1(c) of the Board's Regulation O provides, in part, that the terms 'loan', 'loaning', 'extension of credit' and 'extend credit' include:

'(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;' 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.'

"An accommodation indorsement by an executive officer of a member bank upon a note or other evidence of indebtedness is included within the definition quoted above, if the executive officer may be liable as indorser or becomes

3/3/36

-6-

"obligated to a bank by reason of such an indorsement. In this connection, under the usual rules of law an accommodation indorser is one who has signed an instrument as an indorser, without receiving value therefor and for the purpose of lending his name to some other person, and such an indorser is liable on the instrument to a holder for value.

"Moreover, a loan or extension of credit to a third person based in part upon the credit of an executive officer, as represented by his accommodation indorsement, is a transaction which it is believed should be subject to the same restrictions as a loan or extension of credit to the executive officer himself. The abuses which led to the enactment of section 22(g), including the undue influence exercised by executive officers in obtaining credit from the banks they serve, may also be present to a certain extent in the case where a loan to a third person is supported by the accommodation indorsement of an executive officer. Accordingly, the mere fact that an executive officer receives no financial benefit as the result of his accommodation indorsement would not be justification for excluding the liability arising as the result of an accommodation indorsement by an executive officer from the provisions of Regulation O.

"In the circumstances, it is the Board's view that the liability of an executive officer of a member bank by reason of an accommodation indorsement on a note or other evidence of indebtedness held by a bank is included within the definition contained in section 1(c) of the Board's Regulation O."

Approved unanimously.

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

"This refers to your letter of November 21, 1935, with regard to the acquisition during 1935 of stock of the Motor Contract Company, Savannah, Georgia, by the Trust Company of Georgia Associates, a subsidiary owned by the Trust Company of Georgia, a member bank.

"The Board has considered the opinion of counsel for your bank to the effect that the acquisition of such stock did not constitute a technical violation by the member trust company of the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act which pro-

3/3/36

-7-

"hibit a State member bank from purchasing corporate stocks since the stock was acquired by a subsidiary and not by the member bank directly. While the Board is not inclined to disagree with the opinion of your counsel on the basis of the facts before it in the present case, the Board feels that the acquisition of such stock by the subsidiary owned by the member trust company is at least contrary to the spirit and purpose of the applicable provisions of law, since the transaction is one which could not have been carried out by the member institution itself. From the standpoint of sound banking practice, the acquisition of such stock may not be substantially objectionable at this time in view of all the circumstances involved, particularly the fact that the trust company has total resources of approximately \$20,000,000 and the Motor Contract Company is incorporated for only \$10,000. However, it is possible that the capital of the Motor Contract Company might be increased and its volume of business enlarged to a point where the matter might be one of importance to the member trust company and also, if no objection is raised to this transaction, the subsidiary might invest in other corporate stocks. The Board believes, therefore, that it is desirable that you advise the Trust Company of Georgia of its views in this matter and suggest that it cause its subsidiary to dispose of the stock in question as soon as practicable. Please advise the Board of the disposition which is finally made of this matter by the member institution."

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 dated February 14, 1936, regarding the furnishing of copies of X letters to member banks in your district. You state that you assume that the Board will interpose no objection to your circularizing member banks in connection with interpretations which are of general interest, provided that the X number be omitted from such circulars.

"The general policy of the Board regarding the furnishing of X letters to persons outside of the Federal Reserve bank was expressed in the Board's letters of July 15, 1933 (X-7499) and December 14, 1933 (X-7716), in which the Board stated that, while the information contained in X letters may be utilized to the extent that may be appropriate,

3/3/36

-8-

"according to the circumstances, in answering inquiries and otherwise in performing the duties of officers and employees of the Federal Reserve bank and of your staff, such communications, unless otherwise indicated therein or subsequently authorized by the Board, are not to be used for distribution or made available to persons outside of the Federal Reserve bank. There has been no change in the general policy of the Board as stated in the above letters.

"As you know, the Board publishes in the Federal Reserve Bulletin those of its rulings which it considers to be of general interest and there is no objection, of course, to the general distribution of copies of such published rulings. As indicated in your letter, the Board stated that it had no objection to the sending of copies of its letter to Mr. Awalt of January 10, 1936 (X-9424), to all member banks. If there are other specific X letters of which you desire to furnish copies to member banks in your district, the Board will be glad to give consideration to a request for permission to do so. Such a request should state the X numbers of the letters of which you desire to furnish copies."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of

Minneapolis, reading as follows:

"This refers to your letter of February 11, 1936, inclosing a copy of a proposed circular containing a digest of certain rulings of the Board and opinions of Counsel for the Federal Reserve Bank of Minneapolis, relating to Regulations D, O, and Q.

"You state that you believe it would be advisable to distribute this circular and digest to the member banks in your district and you ask to be informed of the Board's views concerning the matter.

"With regard to the opinions of Counsel for the Federal Reserve Bank of Minneapolis, the Board feels that, although it is entirely proper for Counsel for the Federal Reserve Bank to give to member banks, in response to specific inquiries, his opinion concerning the proper interpretation of the Board's regulations, it is not desirable to issue copies of such opinions or digests thereof to all member banks because such banks might consider these opinions as being official rulings, whereas, as you know, each of them is subject to modification or reversal by the Board if, upon consideration of the question involved, the Board should

3/3/36

-9-

"reach an opinion at variance with that of Counsel for the Federal Reserve bank.

"As stated in the Board's letters of July 15, 1933 (X-7499) and of December 14, 1933 (X-7716), while the information in X letters may be utilized to the extent that may be appropriate according to the circumstances in answering inquiries and otherwise in performing the duties of officers and employees of the Federal Reserve bank and members of your staff, such communications, unless otherwise indicated therein or subsequently authorized by the Board, are not to be used for distribution or made available to persons outside of the Federal Reserve bank. It is the view of the Board that the information contained in such letters should be used in answering specific inquiries but that copies of such letters should not be distributed to persons outside of the Federal Reserve bank and that digests of such letters should not be so distributed. This view is based upon the belief that the preparation of a digest of a ruling necessarily involves some interpretation thereof and that the issuance of digests by the twelve Federal Reserve banks would be very likely to cause a lack of uniformity in the interpretation of the Board's rulings.

"As you know, the Board publishes in the Federal Reserve Bulletin those of its rulings which it considers to be of general interest and there is, of course, no objection to the general distribution of copies of such published rulings. In this connection, you are advised that all of the rulings of the Board digested in the circular inclosed in your letter either have been or will be published in the Federal Reserve Bulletin.

"With regard to the proposed digest of the Board's ruling regarding the definition of a savings deposit on page 4 of the circular inclosed in your letter, your attention is invited to the fact that in its letter of January 21, 1936 (X-9457), the Board stated that it had no objection to the sending of copies of its letter of January 10, 1936 (X-9424), to all member banks, but requested that the X number be omitted from such copies. If there are other specific X letters of which you desire to furnish copies to the member banks in your district, the Board will be glad to give consideration to a request for permission to do so. Such request should state the X numbers of the letters of which you desire to furnish copies."

Approved unanimously.

3/3/36

-10-

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

"Reference is made to your letter of February 11, 1936, submitting the question whether the exception contained in Section 8 of the Clayton Act, as amended, and set forth in Section 2(d)(4) of the Board's revised Regulation L, effective January 4, 1936, exempting from the prohibition of Section 8 interlocking relationships as between banks, more than fifty percent of the common stock of which is owned directly or indirectly by the same persons, is applicable to the services of Mr. R. W. Karraker, Jonesboro, Illinois, and Mr. John B. Jackson, Anna, Illinois, with The First National Bank of Jonesboro, Jonesboro, Illinois, and The Anna National Bank, Anna, Illinois.

"It is noted from the information submitted in your letter that, assuming Cora H. Karraker and Cyrus H. Karraker, widow and son respectively, of D. W. Karraker, own 'directly or indirectly' the shares of stock of The First National Bank of Jonesboro now held in the name of the Estate of D. W. Karraker, the shareholders common to both institutions own more than fifty percent of the common stock of The First National Bank of Jonesboro and exactly fifty percent of the common stock of The Anna National Bank; and that you advised Mr. Jackson that the statutory exception in question would be applicable to the relationships involved only if the stockholders common to both institutions owned more than fifty percent of the common stock of each institution, but that he desires a ruling from the Board on this question.

"The statute seems clear on the point involved. It provides that the prohibition contained in the first paragraph of Section 8, as amended, shall not apply to relationships involving a member bank and 'A bank . . . more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.' The use of the words 'more than 50 per centum' seems clearly to indicate that the exception in question is not to apply in the event that fifty per cent or less of the common stock of the institutions involved is owned by stockholders common to both institutions. Therefore, it does not appear that the exception set forth in Section 2 (d)(4) of the Board's Regulation L is applicable to the services of Messrs. Karraker and Jackson with The First National Bank of Jonesboro and The Anna National Bank.

3/3/36

-11-

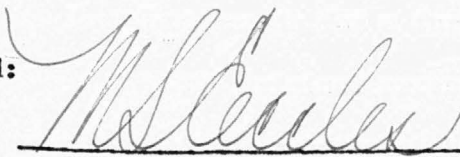
"The Board is not undertaking at this time to determine whether Cora H. Karraker and Cyrus H. Karraker 'own directly or indirectly' the shares of stock of The First National Bank of Jonesboro held in the name of the Estate of D. W. Karraker since the determination of this question appears to be pertinent only in the event the further question is raised as to whether stockholders common to both The Anna National Bank and The First National Bank of Jonesboro own more than fifty percent of the common stock of each institution within the meaning of the statute. In order to determine this question it will be necessary to give full consideration to all facts tending to establish the beneficial interests of Cora H. Karraker and Cyrus H. Karraker in the shares of stock of The First National Bank of Jonesboro held in the name of the Estate of D. W. Karraker.

"Please advise Mr. Jackson in accordance with these views."

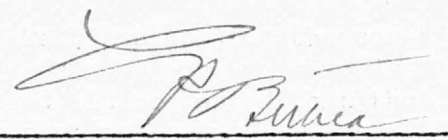
Approved unanimously.

Thereupon the meeting adjourned.

Approved:



 Chairman.



 Assistant Secretary.