A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 5, 1936, at 11:30 a. 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:

Bond, in the amount of $100,000, executed under date of March 2, 1936, by Mr. H. Warner Martin as Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

Approved unanimously.

Bond, in the amount of $100,000, executed under date of March 3, 1936, by Mr. William B. Geery as Federal Reserve Agent at the Federal Reserve Bank of Minneapolis.

Approved unanimously.

Telegrams to Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change today by the respective banks of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated March 2, 1936, from Mr. Goldenweiser, Director
of the Division of Research and Statistics, stating that Mr. Roland Robinson, a research assistant in the Division, who was sent to New York on January 5, 1936, for a temporary period for the purpose of establishing the editing and tabulating center for the closed bank study being supervised by the Division for the Works Progress Administration, was still engaged in that work, and recommending that, as it is uncertain how much longer he will be required to remain in New York and as he is actually in a travel status and his expenses are considerably higher there than they would be at his home station in Washington, the Board allow him $5.00 per diem in lieu of subsistence while he is away from Washington in connection with the special assignment.

Approved unanimously.

Memorandum dated March 4, 1936, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated March 2 from President Schaller of the Federal Reserve Bank of Chicago, which requested authority to pay Mr. E. A. Delaney, who had been an assistant deputy governor with salary at the rate of $4,000 per annum (reduced from $8,000 per annum on July 1, 1935), $2,000 as a lump sum settlement on his separation from the service of the Federal Reserve Bank of Chicago in lieu of the payments authorized in the Board's letter of December 27, 1935 (X-9405). The memorandum stated that as a general rule it was believed preferable in the case of employees with extended service who are involuntarily separated from service to require that any material benefits provided for such employees, except for the small
cash payment of two months' salary authorized by the Board's letter of December 27, be paid to the Retirement System to provide, together with the employee's own contributions, an annuity at or after age 55. The memorandum also stated that there may be exceptional circumstances in certain cases, however, which justify a cash payment equal to six months' salary in lieu of the benefits authorized in the Board's letter and recommended that, inasmuch as both Mr. Delaney and the Federal Reserve Bank of Chicago preferred the cash settlement of $2,000 to the more liberal benefits the bank was authorized to provide in the form of an annuity, the Federal Reserve Bank of Chicago be authorized to make such payment.

Approved unanimously.

Telegram to Mr. Sargent, Assistant Federal Reserve Agent at the Federal Reserve Bank of San Francisco, referring to the application of the "Le Grand Bank", Le Grand, California, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Le Grand Bank, the Federal Reserve Bank of San Francisco is authorized to cancel such stock and make appropriate refund thereon.

Approved unanimously.

Telegram to Mr. Wood, Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:
"Re your letter February 18, 1936 regarding proposed retirement by 'Manchester Bank of St. Louis', St. Louis, Missouri, of $100,000 of its $500,000 preferred stock now outstanding. Board's consent to the capital reduction is not required by law or the conditions of membership to which the bank is subject. Board, however, has considered the matter and in view of all the facts and circumstances involved and in accordance with your recommendation, will interpose no objection to the consummation of the transaction as outlined in your letter of February 18, 1936, and the accompanying papers provided that the transaction is not in violation of any provisions of State law."

Approved unanimously.

Memorandum dated February 27, 1936, from the Division of Examinations, with regard to the capital position of the Davenport Bank and Trust Company, Davenport, Iowa. The memorandum stated that the question of requiring the bank to increase its capital structure was reviewed by the Board on May 24, 1935, and the Federal Reserve Agent at the Federal Reserve Bank of Chicago was advised that no requirement would be made that the bank increase its capital and surplus at that time, but that he should review the situation at the end of the year and advise the Board as to his recommendations in the matter in view of the circumstances then and that the Federal reserve agent had advised in an analysis of report of examination of the bank as of December 2, 1935, that it was believed, for the reasons stated, that action requiring the bank to increase its capital might properly be deferred until greater need is indicated. The memorandum recommended that, in view of these circumstances, no action be taken at this time to require an increase in the capital structure of the bank.

Approved unanimously.
Letter to Mr. R. I. Fulton, Cashier, The County National Bank at Clearfield, Clearfield, Pennsylvania, reading as follows:

"Receipt is acknowledged of your letter of February 14, 1936, with reference to whether your bank may invest trust funds in assets acquired from its commercial department. You refer to the following provision of the laws of the Commonwealth of Pennsylvania:

'A bank and trust company shall not, directly or indirectly, purchase with funds held by it as fiduciary, or exchange for any real or personal property held by it as fiduciary, any asset of its commercial department, but this prohibition shall not apply in the case of bonds or other interest-bearing obligations of the United States, of this Commonwealth, or of any county, city, borough, township, school district, or poor district of this Commonwealth, nor in the case of assets of its commercial department ear-marked for future trust investment at the time of acquisition by the commercial department, and purchased or exchanged, within one year after acquisition, with funds or for property held by it as fiduciary. A report shall be made monthly to the board of directors and to the Department of all transactions, including ear-marked acquisitions, within the exception to the foregoing prohibition.'

"It is noted that your bank has qualified to exercise trust powers under the regulations of the Department of Banking of the Commonwealth of Pennsylvania, submits to examinations by it, and makes the monthly reports required by the above-quoted statutory provision. It is also noted that you have been advised that the Department of Banking has provided by regulation that all sales of assets by the commercial department of a bank to its trust department must be made without profit to the former.

"The investment by a bank of funds which it holds in trust in assets acquired from the bank constitutes self-dealing which is contrary to established principles of law and sound practice governing the administration of trusts. Therefore, the Board does not feel that it can properly approve any investment of trust funds by a national bank in assets acquired from the commercial department of such bank. In this connection, the Statement of Principles of Trust Institutions adopted by the Trust Division of the American Bankers Association contains the following:

'It is a fundamental principle that a trustee should not have any personal financial interest, direct or indirect, in the trust investments, bought for or sold to the trusts
"of which it is trustee, and that it should not purchase for itself any securities or other property from any of its trusts. Accordingly, it follows that a trust institution should not buy for or sell to its estates or trusts any securities or other property in which it, or its affiliate, has any personal financial interest, and should not purchase for itself, or its affiliate, any securities or other property from its estates or trusts."

Approved unanimously.

Memorandum dated February 27, 1936, from Mr. Owens, Assistant Counsel, submitting a letter dated February 11, 1936, from Mr. Curtiss, Federal Reserve Agent at the Federal Reserve Bank of Boston, which presented several questions submitted on behalf of a committee of the Boston Clearing House Association as to whether the furnishing of certain articles and services by a member bank to its depositors constitutes an indirect payment of interest on demand deposits in violation of the prohibition in Section 19 of the Federal Reserve Act against the payment of interest, directly or indirectly, by any device whatsoever, on any demand deposit. The memorandum stated that the letter from the Federal reserve agent presented for the Board's decision a question of policy arising from the differences between the definition of the term "interest" (the effective date of such definition had been deferred until further action of the Board) in the Board's Regulation "Q" and in Regulation IV of the Federal Deposit Insurance Corporation, relating to the payment of interest on deposits in member banks and insured nonmember banks, respectively; and that since it seemed to be advisable for the Board to give consideration to the definition of "interest" as
soon as possible, it was recommended that the Federal Reserve Agent at the Federal Reserve Bank of Boston be advised as follows:

"This refers to your letter dated February 11, 1936, presenting certain questions submitted by a member bank on behalf of a committee of the Boston Clearing House Association as to whether the furnishing of certain articles and services constitutes an indirect payment of interest on deposits.

"As stated in your letter, the definition of the term 'interest' contained in section 1(f) of Regulation Q is not now in effect and, for this reason, the Board is unable at this time to answer the questions presented in your letter.

"However, as soon as the Board adopts a definition of interest, these questions will be considered and you will be advised of the Board's views thereon."

Approved unanimously.

Letter to Mr. Harry J. Haas, Vice President, The First National Bank of Philadelphia, Philadelphia, Pennsylvania, reading as follows:

"This refers to your letter to Mr. Ransom of February 6, 1936, with regard to reports of executive officers of member banks of their indebtedness to other banks under the provisions of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O. You indicated that you had construed the Board's regulation as not contemplating that such reports would be made available to the board of directors of the member bank involved.

"Under the provisions of section 22(g), an executive officer of a member bank who becomes indebted to another bank is specifically required to make a written report to the board of directors of the member bank of which he is an executive officer. It is clear from the legislative history of section 22(g) that, in making such specific requirement, Congress contemplated that the board of directors of a member bank should have available the information contained in any such report, since by the Banking Act of 1935 it amended section 22(g) so as to make the specific requirement that any such report of an executive officer of a member bank be made to the board of directors rather than to the chairman of the board of directors as had previously been provided in section 22(g).

"The Board has noted your comments regarding the abuses which section 22(g) was designed to correct and is in agree-
ment with you that the board of directors of a member bank should be fully advised of the indebtedness of its executive officers to other banks. Accordingly, in promulgating its Regulation 0, the Board, in section 5 of such regulation, has again stated the requirement of the law that each report of the kind referred to above shall be made to the board of directors of the member bank involved. As a matter of maintaining appropriate records, the Board did not wish to impose what might appear to be an unnecessary hardship upon a member bank by requiring it to transcribe the full details of a report of indebtedness of an executive officer in the minute book of the bank, but has merely required that the receipt of the report be recorded in the minutes and that each such report be retained by the member bank and be made available upon request for inspection by duly authorized examiners. It is contemplated, however, by the law and also by the Board’s regulation that the full report of an executive officer will be received by the board of directors of the member bank of which he is an executive officer. Accordingly, the purposes of the law and the requirements of the regulation will not be met if the secretary of the board of directors of a member bank, or any other person who may receive such a report, merely records the receipt thereof in the minute book of the bank and does not take appropriate steps to see that the board of directors has an opportunity to be fully informed as to the contents of such report."

Approved unanimously.

Letter to Mr. Howard N. Cassel, The Citizens National Bank, Wells-

vile, New York, reading as follows:

"Receipt is acknowledged of your letter of February 21, 1936, requesting to be advised whether the Secretary of the Board of Directors of your bank is an executive officer within the meaning of that term as defined in subsection (b) of section 1 of the Board’s Regulation 0.

"While you do not so state, it is assumed that the functions of the individual to whom you refer as Secretary of the Board of Directors are those ordinarily performed by the secretary of a board of directors, such as the keeping of the minutes of the meetings of the board and the certification of resolutions as passed by the board. It is also assumed that he acts strictly in these and similar capacities and is not in any sense active in the management of the bank. If such is the case, it is the opinion of the Board that the
"Secretary of the Board of Directors of your bank is not an executive officer within the meaning of that term as defined in Regulation 0."

Approved unanimously.

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

"Referring your March 3 telegram, it is believed that stock of Federal Reserve bank notes should be retained until such time as President has declared that emergency recognized by his proclamation of March 6, 1933, has terminated, after which time no Federal Reserve bank notes can be issued."

Approved unanimously.

Memorandum dated March 4, 1936, from Mr. Bethea, Assistant Secretary, submitting a draft of letter to Mr. W. G. Distler, Vice President of the George A. Fuller Company, in response to a communication received from that company proposing the name of Harry Alexander, Inc., Washington, D. C., as sub-contractor for the electrical work on the new building of the Board in accordance with the terms of Article 31 of the construction contract, under the provisions of which no sub-contractor can be employed who is objectionable to the Board. The memorandum stated that the Board's architect, the Board's Superintendent of Construction and Mr. Miller had recommended that the George A. Fuller Company be advised that the above named sub-contractor is not objectionable to the Board. The letter to Mr. Distler read as follows:

"Reference is made to your letter of February 10 in which you proposed the firm of Harry Alexander, Inc., Washington, D. C., as sub-contractor for the electrical work on the new building of the Board of Governors.

"I am authorized by the Board of Governors to advise you in accordance with Article 31 of the construction contract
with your company that for the purpose stated this proposed sub-contractor is not objectionable to the Board."

Approved unanimously.

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

"In accordance with the provisions of Article 35 of the construction contract, you are hereby directed to cause the work covered by Allowance G, 'Wrought Iron Work', in Section 1 of the Specifications, page 51-13, to be done by Samuel Yellin, 5520 Arch Street, Philadelphia, Pennsylvania, for the sum of Fifteen thousand five hundred and no/100 ($15,500.00) Dollars, which is the amount named in the Specifications as the allowance for this work.

"You should of course make certain that all of the work covered by this Allowance, as provided in the contract documents, is covered by the contract which you enter into with Mr. Yellin.

"A copy of the estimate submitted by Mr. Yellin, dated February 13, 1936, is inclosed for your information."

Approved unanimously.

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

"In accordance with the provisions of Article 33 of the construction contract, you are hereby directed to cause the work covered by Allowance H, 'Tile Work', in Section 1 of the Specifications, page 51-14, to be done by Wm. H. Watts & Co., 151 N. 16th Street, Philadelphia, Pennsylvania, for the sum of Nine thousand eighty-five and no/100 ($9,085.00) Dollars.

"You should of course make certain that all of the work covered by this Allowance, as provided in the contract documents, is covered by the contract which you enter into with Wm. H. Watts & Co.

"In view of the fact that said sum of $9,085 exceeds $8,438, the amount named in the Specifications as the allowance for this work, the excess, namely, Six hundred forty-seven and no/100 ($647.00) Dollars, will be added in making the adjustment in the contract sum resulting from differences between the amounts of the allowances named in the Specifications and the amounts for which the Board may direct the work to be done,
as provided in said Article 33 and in paragraph 80 of Section 1 of the Specifications, page S1-12.

"A copy of the estimate submitted by Wm. H. Watts & Co., dated February 11, 1936, is inclosed for your information."

Approved unanimously.

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

"In accordance with the provisions of Article 53 of the construction contract, you are hereby directed to cause the work covered by Allowance B, 'Models', in Section 1 of the Specifications, page S1-13, to be done by Voigt Company, Twelfth and Montgomery Avenue, Philadelphia, Pennsylvania, for the sum of Fifteen thousand nine hundred twenty-five and no/100 ($15,925.00) Dollars.

"You should of course make certain that all of the work covered by this Allowance, as provided in the contract documents, is covered by the contract which you enter into with Voigt Company.

"In view of the fact that said sum of $15,925 is less than $17,700, the amount named in the Specifications as the allowance for this work, the difference, namely, One thousand seven hundred seventy-five and no/100 ($1,775.00) Dollars, will be deducted in making the adjustment in the contract sum resulting from differences between the amounts of the allowances named in the Specifications and the amounts for which the Board may direct the work to be done, as provided in said Article 33 and in paragraph 80 of Section 1 of the Specifications, page S1-12.

"A copy of the estimate submitted by Voigt Company, dated February 18, 1936, is inclosed for your information."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: ________________
Chairman.

[Signature]
Assistant Secretary.