A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 24, 1936, at 11:00 a. m.

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

Mr. Morrill, Secretary
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. Goldenweiser, Director of the Division of Research and Statistics
Mr. Thomas, Assistant Director of the Division of Research and Statistics
Mr. Parry, Chief of the Division of Security Loans
Mr. Bradley, Assistant Chief of the Division of Security Loans
Mr. Dembitz, Research Assistant, Division of Security Loans

There was presented a memorandum dated March 24, 1936, from Mr. Parry with which he submitted a revised draft of Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, which had been prepared following a conference of the senior members of the staff yesterday. At the request of the Chairman, Mr. Parry outlined the changes made in the draft at the staff conference and reviewed briefly the principal provisions of the regulation. Mr. Parry also reviewed the reasons (which it was understood would be incorporated by him in a memorandum for the files) for the principal provisions of the regulation and for his recommendation

that the Board adopt the form of supplement to the regulation which would provide that the maximum loan value of any stock, whether or not registered on a national securities exchange, should be a fixed percent of its current market value as determined by any reasonable method, and he discussed the so-called statutory formula for margin requirements and a margin formula which would be based on the lowest market value of the security since a fixed date in the past.

After a discussion of various provisions of the regulation, the meeting recessed with the understanding that it would reconvene this afternoon for the purpose of discussing the margin formula to be prescribed in the regulation, and that Mr. Landis, Chairman of the Securities and Exchange Commission, would be invited to meet with the Board at 3:30 p. m. to present any suggestions that he might have to make in connection with the regulation.

The meeting reconvened at 2:30 p. m. with the same attendance as at the morning session and consideration was given to the margin formula to be prescribed by the Board in the regulation. Mr. Parry outlined reasons for his recommendation that the Board fix the maximum loan value of stocks at 45% of their current market value and, in the case of loans by banks to brokers and dealers on rehypothecated securities, at 60% of their current market value.

At 3:30 p. m., Mr. Landis, Chairman, and Mr. Thomas Gammack, Executive Assistant to the Chairman, of the Securities and Exchange Commission, joined the meeting.

Chairman Eccles stated that the Board would be glad to receive any suggestions that Mr. Landis might have to make with regard to the proposed Regulation "U".

Mr. Landis stated that there were four questions which he would like to discuss with the Board in which he felt the Securities and Exchange Commission was particularly interested. He called attention first to the fact that the draft of regulation applied only to stocks as such and did not include such instruments as voting trust certificates, stock purchase warrants, or certificates of deposit for stocks. He stated that he felt the regulation should contain a definition of the word "stock" which would include instruments of the kind referred to but which would not be so broad as to include certain instruments which might be termed equity securities, such as convertible bonds.

He then pointed out that the proposed regulation provided that unregistered stocks used as collateral for a loan for the purpose of purchasing or carrying registered stocks should have the same loan value as registered stocks, whereas under the provisions of Regulation "T" with respect to loans by brokers and dealers, unregistered securities have no loan value. He stated that such a provision in Regulation "U" would amount to preferential treatment of such loans by banks as against loans by brokers and dealers and members of national securities exchanges, and that he felt Regulation "U" should provide that unregistered securities should be without loan value.

As a third point, Mr. Landis referred to the provision contained

in the three drafts of margin formulas attached to the draft of Regulation "U", that a stock should have a greater loan value in the case of a loan by a bank to a broker or dealer than it would have in the case of a loan to an ordinary customer of the bank. He stated that the result of this provision would be to make it easier for brokers and dealers to speculate for their own account, whereas the objective of section 11 of the Securities Exchange Act of 1934 and rules adopted by the exchanges was to restrict speculation. He stated that, while the problem was a difficult one, he felt that, as the important point of control was the amount of borrowing by brokers and dealers for speculation for their own account, the problem might be met by eliminating the provision from the supplement and providing elsewhere that the commitments of brokers and dealers for their own account should be limited to a certain ratio of their capital not otherwise committed, which limitation should be fixed at a ratio of possibly 2 to 1. He said that he realized that this suggestion raised the question as to who should prescribe such a limitation; that at one time he had thought that it was quite clear that the Securities and Exchange Commission possessed authority to prescribe such a limitation but that he was not now convinced that it had such authority; that he felt the limitation might be prescribed by the national securities exchanges; and that, of course, the successful operation of the limitation would depend upon the effectiveness with which the rule was administered. He pointed out that one of the weaknesses of such an arrangement would be that it would not affect

brokers and dealers who were not members of national securities exchanges, but stated that the business done by such brokers and dealers does not constitute a large portion of the total.

With regard to the margin formula to be adopted in Regulation "U", Mr. Landis stated that the Securities and Exchange Commission felt rather strongly that it would be unwise at this time to increase loan values of securities for the purpose of purchasing or carrying securities, and that, if the Board should adopt a formula based on a flat percentage, the percentage should be equal to the lowest percentage now applicable on any registered security. In this connection, he agreed that a formula based on a flat percentage of the current market price would have the advantage of simplicity, particularly in view of the fact that the regulation would apply to all banks in the United States. In connection with the question whether the Board would be justified in abandoning the statutory formula prescribed in the Securities Exchange Act of 1934, he expressed the opinion that the principal purpose underlying the statutory formula when the Act was passed had been largely accomplished, in that margin requirements, which were very low when the formula first became effective, had increased automatically under the formula to an average of about 48%, and a margin requirement based on a flat percentage could be justified on the grounds that a large majority of stocks listed on national securities exchanges had increased in price to a point where they were no longer subject to the anti-pyramiding restrictions contained in the statutory formula.

The suggestions made by Mr. Landis were discussed and it was indicated that a definition of the term "stock" along the lines suggested by Mr. Landis might be included in the regulation.

Chairman Eccles led a discussion of Mr. Landis' second suggestion, pointing out reasons which could be advanced as to why it should not be adopted. In connection with this matter, Chairman Eccles inquired whether Mr. Landis thought Regulation "U" should contain an exemption which would apply to loans to any person whose total indebtedness to the bank did not exceed $1,000, and Mr. Landis replied that he saw no objection to it and that he felt that, although not an important matter such an exemption might be desirable, but that a larger exemption would not be justified.

Mr. Parry pointed out that under Mr. Landis' third suggestion, the use of credit by the broker for his own account could be controlled only if the exchanges effectively enforced their rule, whereas, under the method proposed in the draft of Regulation "U", the matter could be dealt with directly and the amount which a broker could borrow on the securities pledged by his customers could be reduced from time to time by such amount as appeared to be necessary in the circumstances.

Upon inquiry as to the differential that should be permitted between the loan value of securities used as collateral for loans by banks to ordinary customers and the loan value of securities of customers pledged by brokers or dealers as collateral for loans from banks, Mr. Parry stated that he was prepared to recommend that the Board fix a

maximum loan value of 45% on stocks pledged to secure loans to customers and a maximum loan value of 60% on securities rehypothecated by brokers and dealers. Mr. Landis agreed that if the differential between the two loan values referred to were reduced to 15% it would reduce materially the amount brokers and dealers could use for speculation for their own accounts.

Mr. Landis suggested that, if it were the plan of the Board to issue Regulation "U" to become effective thirty or more days in the future, consideration might be given to the possibility of working out an arrangement before the effective date whereby the formula prescribed in the regulation would not be applicable to loans on customers' securities by brokers and dealers who are members of national securities exchanges, with the understanding that the rules of the national securities exchanges would be amended to place a limit on the amount that a broker might borrow on such securities.

Reference was made to subsection 3(c) of the draft of regulation which provided that in determining whether or not a security is a "stock registered on a national securities exchange", a bank may rely on any reasonably current record of stocks so registered that is published or specified in a publication of the Board of Governors of the Federal Reserve System. Mr. Parry stated that the Board might specify the list of stocks published by the Securities and Exchange Commission and kept current by monthly supplements issued by the Commission. Mr. Landis indicated that such an arrangement would be satisfactory to

the Commission.

During a discussion of the formula that should be prescribed in Regulation "U", Mr. Landis stated that he was not in favor of a formula which would be based on the lowest market value of a security since a specified date and expressed the view that if the Board should depart from the statutory formula it should adopt a formula based on the current market value.

Upon inquiry from Mr. Parry as to Mr. Landis' opinion on the advisability of adopting similar margin requirements in Regulations "T" and "U", Mr. Landis stated that he felt it would be desirable to have the requirements of both regulations as nearly uniform as possible.

Mr. Parry suggested that the Board might wish to discuss with Mr. Landis at some future time the general question of enforcement of Regulation "T".

Chairman Eccles advised Mr. Landis that the Board would be glad to meet with Mr. Landis or other members of the Securities and Exchange Commission at any time to discuss matters of mutual interest and assured him that the Board was desirous of cooperating with the Commission in every possible way in carrying out the provisions of the Securities Exchange Act of 1934.

Messrs. Landis and Gammack withdrew from the meeting at this point.

After a further discussion, Mr. Szymczak moved that subsection 2(b) of

the regulation which provided that any loan to any person whose total indebtedness to the bank at the date of, and including, such loan does not exceed $1,000, be retained in the regulation.

Mr. Szymczak's motion was put by the chair and carried, Mr. Ransom voting "no".

Mr. Broderick moved that the Board agree that the margin formula used in the supplement to the regulation should be stated as follows:

"For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange shall be ____ percent of its current market value, as determined by any reasonable method.

"Loans to brokers and dealers. Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a special maximum loan value of ____ percent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank accepts in good faith a signed statement to the effect (1) that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) that the securities hypothecated to secure the loan are securities carried for the account of his customers other than his partners."

Carried unanimously.

Mr. Broderick moved that the percentages to be fixed by the Board in the formula referred to above be fixed at 45% and 60%, respectively.

After a discussion, Mr. Broderick's motion was put by the chair and carried unanimously.

In connection with a discussion of the question when Regulation "U" should be made effective, Chairman Eccles stated that Mr. Morrison had advised him before leaving Washington for Texas that, if Regulation

"U" should be acted upon by the Board during his absence, he wished to be recorded as being unfavorable to the adoption of the regulation at this time as he saw no need for the regulation until such time as there was evidence of an increased use of bank credit for the purpose of purchasing or carrying securities.

Upon motion by Mr. Szymczak, Regulation "U" was then approved and adopted, by unanimous vote, in the following form, to become effective May 1, 1936:

"REGULATION U

"LOANS BY BANKS
FOR THE PURPOSE OF PURCHASING OR CARRYING
STOCKS REGISTERED ON A NATIONAL SECURITIES EXCHANGE

"SECTION 1. GENERAL RULE

"On and after May 1, 1936, no bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in the supplement to this regulation and as determined by the bank in good faith for any collateral other than stocks.

"For the purpose of this regulation, the entire indebtedness of any borrower to any bank incurred on or after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange shall be considered a single loan; and all the collateral securing such indebtedness shall be considered in determining whether or not the loan complies with this regulation.

"After any such loan has been made, a bank shall not at any time permit withdrawals or substitutions of collateral that would cause the maximum loan value of the collateral at such time to be less than the amount of the loan. In case such maximum loan value has become less than the amount of the loan, a bank shall not permit withdrawals or substitutions that would increase the deficiency; but the amount of the loan may be increased if there is provided additional collateral having maximum loan value at least equal to the amount of the increase.

"SECTION 2. EXCEPTIONS TO GENERAL RULE

"Notwithstanding the foregoing, a bank may make and thereafter maintain any loan for the purpose specified above, without regard to the limitations prescribed above, if the loan comes within any of the following descriptions:

"(a) Any loan to a bank or to a foreign banking institution;

"(b) Any loan to any person whose total indebtedness to the bank at the date of and including such loan does not exceed $1,000;

"(c) Any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange;

"(d) Any loan to a broker or dealer that is made in exceptional circumstances in good faith to meet his emergency needs;

"(e) Any loan for the purpose of purchasing a stock from or through a person who is not a member of a national securities exchange and is not a broker or dealer who transacts a business in securities through the medium of any such member, or for the purpose of carrying a stock so purchased;

"(f) Any temporary advance to finance the purchase or sale of securities for prompt delivery which is to be repaid in the ordinary course of business upon completion of the transaction;

"(g) Any loan against securities in transit, or surrendered for transfer, which is payable in the ordinary course of business upon arrival of the securities or upon completion of the transfer;

"(h) Any loan which is to be repaid on the calendar day on which it is made;

"(i) Any loan made outside the 48 States of the United States and the District of Columbia.

"SECTION 3. MISCELLANEOUS PROVISIONS

"(a) In determining whether or not a loan is for the purpose specified in section 1 or for any of the purposes specified in section 2, a bank may rely upon a statement with respect thereto, accepted by the bank in good faith, signed by an officer of the bank or by the borrower.

"(b) No loan, however it may be secured, need be treated as a loan for the purpose of 'carrying' a stock registered on a national securities exchange unless the purpose of the loan

"is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or dealer, to carry such stocks for customers.

"(c) In determining whether or not a security is a 'stock registered on a national securities exchange', a bank may rely upon any reasonably current record of stocks so registered that is published or specified in a publication of the Board of Governors of the Federal Reserve System.

"(d) The renewal or extension of maturity of a loan need not be treated as the making of a loan if the amount of the loan is not increased except by the addition of interest or service charges on the loan or of taxes on transactions in connection with the loan.

"(e) A bank may accept the transfer of a loan from another lender, or permit the transfer of a loan between borrowers, without following the requirements of this regulation as to the making of a loan, provided the loan is not increased and the collateral for the loan is not changed.

"(f) A loan need not be treated as collateralled by securities which are held by the bank only in the capacity of custodian, depositary or trustee, or under similar circumstances, if the bank in good faith has not relied upon such securities as collateral in the making or maintenance of the particular loan.

"(g) Nothing in this regulation shall be construed to prevent a bank from permitting withdrawals or substitutions of securities to enable a borrower to participate in a reorganization.

"(h) No mistake made in good faith in connection with the making or maintenance of a loan shall be deemed to be a violation of this regulation.

"(i) Nothing in this regulation shall be construed as preventing a bank from taking such action as it shall deem necessary in good faith for its own protection.

"(j) Every bank shall make such reports as the Board of Governors of the Federal Reserve System may require to enable it to perform the functions conferred upon it by the Securities Exchange Act of 1934.

"(k) Terms used in this regulation have the meanings assigned to them in such portions of section 3(a) of the Securities Exchange Act of 1934 as are printed in the appendix to this regulation, except that the term 'bank' does not include a bank which is a member of a national securities exchange.

"(l) The term 'stock' includes any security commonly known as a stock, any voting trust certificate or other instrument representing such a security, and any warrant or right to subscribe to or purchase such a security."

"SUPPLEMENT TO REGULATION U

"ISSUED BY THE BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

Effective May 1, 1936

"For the purpose of section 1 of Regulation U, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 45 percent of its current market value, as determined by any reasonable method.

"Loans to brokers and dealers. Notwithstanding the foregoing, a stock, if registered on a national securities exchange, shall have a special maximum loan value of 60 percent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank accepts in good faith a signed statement to the effect (1) that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) that the securities hypothecated to secure the loan are securities carried for the account of his customers other than his partners."

Upon motion by Mr. Szymczak, the following amended supplement to Regulation "T", Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, was approved and adopted by unanimous vote to become effective March 30, 1936:

"Maximum loan values of registered securities (other than exempted securities) for purposes of Regulation T.

"Pursuant to the provisions of section 7 of the Securities Exchange Act of 1934 and section 3 of its Regulation T, as amended, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum loan values of registered securities (other than exempted securities) for the purposes of Regulation T:

"(1) General rule. - Except as provided in paragraphs (2) and (3) of this supplement, the maximum loan value of a registered security (other than an exempted security) shall be 45 per cent of the current market value of the security.

"(2) Extension of credit to other members, brokers and dealers. - The maximum loan value of a registered security (other than an exempted security) in a special account with another member, broker or dealer, which special account complies with subsection (b) of section 3 of Regulation T, as amended, shall be 60 per cent of the current market value of the security.

"(3) Extension of credit to distributors, syndicates, etc. - The maximum loan value of a registered security (other than an exempted security) in a special account with a distributor, syndicate, etc., which special account complies with subsection (c) of section 3 of Regulation T, as amended, shall be 80 per cent of the current market value of the security."

It was understood that Regulation "U" and supplement and the revised supplement to Regulation "T" would be released to the press tomorrow afternoon for publication in the morning papers of Thursday, March 26, 1936.

Messrs. Thurston, Wyatt, Smead, Goldenweiser, Thomas, Parry, Bradley, and Dembitz left the meeting at this point 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:

Telegram to Mr. Robert Lassiter, Class "C" Director of the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without change today by the bank of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System notes without objection the action taken by the board of directors of your bank at its meeting on March 13, 1936, as communicated in your letter of that date, in fixing vacation periods for the officers and employees of your head office, branches and agencies during the year 1936."

Approved unanimously.

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

"With your letter of March 13, 1936, you inclosed statements with regard to outside business affiliations of two

"new employees of the Federal Reserve Bank of Minneapolis and it is noted from the statement submitted by Mr. Warren G. Mosiman, a part-time employee, that he contemplates selling hats to friends on a commission basis. Under the circumstances detailed in your letter there does not appear to be any reason why Mr. Mosiman should not engage in such employment."

Approved unanimously.

Telegram to Mr. Fletcher, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"Retel March 24, you are authorized to grant to State bank members in flooded districts reasonable extension of time not exceeding ten days in which to complete condition reports as of March 4, 1936."

Approved unanimously.

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

"This refers to your letter dated March 12, 1936, presenting the question whether deposits of a volunteer fire company and of a ladies auxiliary affiliated with the fire company may be classified as savings deposits, under the definition contained in section 1(e) of Regulation Q.

"The Board understands from your letter that the fire company is chartered by the State as a non-profit organization; that its membership includes the citizens of the community who pay annual dues of a nominal amount; that most of the income of the company is derived from dues, festivals, carnivals, and rental of the fire hall for meetings; that the Borough in which the fire company is located contributes a flat sum of $150 per month which is used largely to pay the driver; and that the Borough sometimes gives assistance in the purchase of new equipment.

"It is also understood that the ladies auxiliary is comprised of members of the firemen's families and friends and that its activities are partly social, although it often assists in the raising of money for the benefit of the fire company by serving dinners to various organizations.

"It is the view of the Board that organizations of the type described above are not in the same category as fire departments of municipalities and that the question here presented is not governed by the ruling contained in the Board's letter of February 27, 1936 (X-9508), regarding deposits of municipalities and departments thereof.

"The Board is of the opinion that volunteer fire companies and ladies auxiliaries of such companies, of the type described

"above, may properly be considered as organizations 'operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes' and, since it is understood that the organizations are not operated for profit, deposits of their funds in a member bank may be classified as savings deposits, provided they conform to the other requirements of section 1(e) of Regulation Q."

Approved unanimously.

Letter to Mr. A. Markle, Jr., President, Markle Banking and Trust Company, Hazleton, Pennsylvania, reading as follows:

"This will acknowledge receipt of a copy of your letter of March 4, 1936, to the Director of Postal Savings, in which you ask to be advised whether there is any likelihood of Congress enacting laws in the near future which will change the rate of interest on deposits in banks of Postal Savings funds from 2½ per cent to 2 per cent.

"You are advised that the Board has received no information concerning any proposed legislation to reduce the rate of interest on Postal Savings deposits in banks.

"Section 341 of the Banking Act of 1935 amended section 8 of the Postal Savings Act so as to provide that 'notwithstanding any other provision of law, * * * postal savings depositories may deposit funds on time in member banks of the Federal Reserve System subject to the provisions of the Federal Reserve Act, as amended, and the regulations of the Board of Governors of the Federal Reserve System, with respect to the payment of time deposits and interest thereon.' Under an opinion of the Attorney General dated December 26, 1935, Postal Savings funds may, in the discretion of the Board of Trustees of the Postal Savings System be deposited in member banks at such rate of interest as may be fixed by Board of Governors.

"In the revision of Regulation Q, effective January 1, 1936, the Board provided a maximum rate of interest of 2½ per cent per annum payable by member banks on savings deposits, on time deposits payable after six months, and also on Postal Savings deposits.

"Before approving Regulation Q the Board gave careful study to the maximum rates to be prescribed and decided, under all the circumstances, to fix 2½ per cent per annum as the maximum rate which member banks could pay on deposits of the kinds described above. In view of this recent determination, as a result of its study of the question, the Board does not contemplate changing at this time the maximum rate payable on such deposits. The situation outlined in your letter will be kept in mind, however, and will be given careful consideration by the Board in connection with its review from time to time of the factors entering into a determination of the maximum rate which banks are permitted to pay on deposits."

Approved unanimously.

Memorandum dated March 2, 1936, from Mr. Smead, Chief of the Division of Bank Operations, reviewing briefly the history of the personnel classification plans now in effect at the Federal reserve banks, submitting a copy of a revised draft of the personnel classification plan prepared by a sub-committee of representatives of the Federal reserve banks, in consultation with the Board's Division of Bank Operations, and reading in part as follows:

"The plan recommended for adoption by the subcommittee divides all positions into two main divisions:

1. General junior positions - Includes all junior positions of a general nature which may occur in almost any department of the bank; namely, stenographer, typist, file clerk, junior clerk, and messenger. These classifications are to be uniform for all Federal Reserve banks.
2. Senior and specific departmental positions - Includes all senior positions and all junior positions that are specific and as a rule do not occur in more than one department; for example, currency sorter, and elevator operator. These classifications are to be made by departments and are to be separately described by each Federal Reserve bank.

"It is proposed to have the titles and description of duties for general junior positions (but not the maximum salaries) uniform for all banks, and the subcommittee has recommended that the titles and duties of such positions be printed on the first five pages of the forms to be used by the Federal Reserve banks in submitting their revised plans. The adoption of the revised plan will eliminate the necessity for frequent revisions in the plan due to reassignment of duties among Junior employees or to transfers of junior employees from one department of a bank to another. Under the present plan typists, for example, can be permanently assigned only to those departments in which provision therefor is made in the personnel classification plans, whereas under the proposed set-up the position of typist is a 'General junior' position and any typist in the employ of the bank may be assigned to any department in which the services of a typist are required. It will be noted that under the revised plan the banks would show the maximum salary only for each position, whereas under the present plan all Federal Reserve banks, except Cleveland, provide both a maximum and minimum salary for each position. Under the proposed procedure the Board would continue, as at present, to review all salaries of employees as of January 1 of each year."

The memorandum also stated that it is believed that the revised plan recommended by the sub-committee is a distinct improvement over the plan now in effect and that it was recommended that it be approved by the Board, together with the following letter to all Federal reserve banks. The memorandum had been circulated among the members of the Board prior to this meeting and Mr. Broderick had noted on the memorandum a recommendation that the revised plan be approved:

"Replies received from the Federal Reserve banks to the Board's letter, X-9352, of October 30, 1935, on the proposed revised personnel classification plan prepared by the Sub-committee of the personnel classification plan conference, which met at Chicago on April 17, 1935, were referred to the Chairman of the Sub-committee for consideration and recommendation. After reviewing the comments of the Federal Reserve banks on the proposed plan, the Sub-committee has recommended that the plan be approved as submitted.

"In the opinion of the Board the proposed plan is a distinct improvement over the plan now in use and, accordingly, it has approved the plan as submitted by the Sub-committee. It will be appreciated, therefore, if you will have the personnel classification plan for your bank revised in accordance with the plan submitted by the Sub-committee and submit the revised plan to the Board for its consideration at your early convenience.

"Forms for use in submitting the new personnel classification plans will be printed by the Board and a supply forwarded to the banks at an early date. In accordance with the recommendation of the Sub-committee, the titles and duties of employees occupying general junior positions will be printed on the first five pages of the forms."

Approved unanimously.

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

"This refers to Mr. Anderson's letter dated March 10, 1936, regarding the question whether the 'Regulations Governing the Purchase of Investment Securities, and Further Defining the Term "Investment Securities" as Used in Section 5136 of the Revised Statutes as Amended by the "Banking Act of 1935"' apply to the so-called exempted securities which are enumerated in paragraph seventh of section 5136.

"Mr. Anderson states that the specific question giving rise to his inquiry is whether a State member bank may purchase exempted municipal obligations, even though such obligations are in default at the time of purchase.

"It is understood that the above mentioned regulation of the Comptroller is not intended to apply to the securities which are exempted from the limitations and restrictions contained in paragraph seventh of section 5136.

"Accordingly, in answer to the specific question presented, it is the view of the Board that there is nothing in the regulation of the Comptroller which prevents any member bank from purchasing a municipal obligation of the type which is exempted from the limitations and restrictions contained in paragraph seventh of section 5136, even though such obligation is in default at the time of purchase.

"The above expression of opinion does not, of course, relate to the advisability of purchasing exempted municipal obligations which are in default, but relates only to the question whether the purchase of such obligations is prohibited by the above mentioned regulation of the Comptroller."

Approved unanimously.

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

"Reference is made to your letter of February 18, 1936, requesting the opinion of the Board as to the applicability of the provisions of section 8 of the Clayton Act, as amended, to the proposed services of Mr. Clark McK. Whittemore, Elizabeth, New Jersey as a director of The First National Bank of Cranford, Cranford, New Jersey, while continuing to serve Union County Trust Company, Elizabeth, New Jersey, a nonmember bank, and Linden Trust Company, Linden, New Jersey, a member bank.

"You state in your letter that Mr. Whittemore may serve Linden Trust Company and Union County Trust Company at least until February 1, 1939, inasmuch as on August 23, 1935, the effective date of the Banking Act of 1935, he was lawfully serving these institutions; and that he may serve Union County Trust Company and The First National Bank of Cranford in view of the fact that Union County Trust Company owns more than fifty percent of the common stock of the national bank; but that the question whether he may serve Linden Trust Company and The First National Bank of Cranford depends upon whether, on the facts stated in your letter, exception numbered (4)

"of section 8 of the Clayton Act, as amended, is applicable to this relationship.

"It is noted from the information contained in your letter that Union County Trust Company owns 530 of the 1,000 shares of common stock outstanding of The First National Bank of Cranford and 926 of the 2,000 shares of common stock outstanding of Linden Trust Company; that Mr. George W. Bauer and Mr. Whittemore, both of whom are stockholders of Union County Trust Company, own individually a total of 105 shares of the common stock of Linden Trust Company; and that other directors of Union County Trust Company individually own additional shares of the common stock of Linden Trust Company. It appears, therefore, that stockholders of Union County Trust Company own directly and/or indirectly more than fifty percent of the common stock of both Linden Trust Company and The First National Bank of Cranford; and accordingly, that more than fifty percent of the common stock of Linden Trust Company is owned directly or indirectly by persons who own directly or indirectly more than fifty percent of the common stock of The First National Bank of Cranford and vice versa.

"Therefore, the Board is of the opinion that the services of Mr. Whittemore with the three banks named come within exception numbered (4) in section 8 of the Clayton Act, as amended, and that, accordingly, under such exception Mr. Whittemore may again become a director of the national bank while continuing his association with the two trust companies."

Approved unanimously.

Thereupon the meeting adjourned.

Secretary.

Approved:

Chairman.