

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, April 29, 1936, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

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

Telegrams to Mr. Curtiss and to Mr. Austin, Chairmen of the Federal Reserve Banks of Boston and Philadelphia, respectively, stating that the Board approves the establishment without change by the banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated April 27, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Blanche L. Sutton as a clerk in the Division, to become effective May 31, 1936, in order to make it possible for the United States Civil Service Commission to authorize the reinstatement of her husband as an associate architect in the National Park Service. The memorandum recommended that Mrs. Sutton's resignation be accepted, to become effective May 31, 1936, and that, for the reasons stated in the memorandum and in lieu of the usual annual leave granted to employees, she be

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given one month's pay to be paid on May 31, 1936.

Approved unanimously.

In connection with the above matter, there was also submitted a letter to the United States Civil Service Commission, reading as follows:

"With reference to the subject of your letter of April 8, 1936, file number U-1958, the Board of Governors of the Federal Reserve System today, April 29, 1936, accepted the resignation of Mrs. Blanche L. Sutton, to become effective on May 31, 1936.

"We have been informed that the National Park Service would like to have Mr. Sutton reinstated on a permanent basis as of June 1, 1936. We trust that the Civil Service Commission will now be able to proceed with the authorization of Mr. Sutton's reinstatement as of that date.

"A copy of this letter is being sent to the Secretary of the Interior."

Approved unanimously.

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

"This refers to your letters of February 26, 1936, and March 9, 1936, in which you advised that the board of directors of the Federal Reserve Bank of Dallas has recommended that the Board of Governors of the Federal Reserve System institute proceedings under the provisions of section 9 of the Federal Reserve Act to terminate the membership in the Federal Reserve System of the Forney State Bank of Forney, Texas.

"In the circumstances and inasmuch as it appears from the information submitted by you that the Forney State Bank of Forney, Texas, has violated the provisions of section 9 of the Federal Reserve Act and the regulations of the Board made pursuant thereto, the Board has decided to institute proceedings looking toward the forfeiture of the membership of that bank. In accordance with the customary procedure in such cases, the Board will hold a hearing, pursuant to the eighth paragraph of section 9 of the Federal Reserve Act. There is inclosed a letter the Board has addressed to

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"the Forney State Bank of Forney, together with a copy thereof, giving notice of a hearing to be held in the offices of the Board in the Washington Building, Washington, D. C., at 11 o'clock on the morning of June 2, 1936.

"You are hereby authorized to have the inclosed letter personally presented to the Forney State Bank of Forney, the person who does so to make an affidavit of service in the usual form in which such affidavits are made in the State of Texas. This affidavit and a copy of the letter to which it is attached should be forwarded to the Board.

"If personal presentation of the inclosed letter will involve a considerable expense or if, for any other reason, it is not feasible to make such a presentation, you may have the inclosed letter forwarded by registered mail to the Forney State Bank of Forney. If this procedure is followed, the person who mails the letter should obtain a receipt therefor and should request a return receipt showing that the letter was delivered to the bank. When the receipt showing delivery of the letter has been returned, the person who mailed the letter should make an affidavit that he forwarded it by registered mail to the bank and received a receipt showing the delivery thereto. This affidavit and a copy of the letter to which it is attached, together with the receipt obtained at the time the letter was mailed and the receipt showing the delivery, should be forwarded to the Board.

"You will note from the inclosed letter that, if the Forney State Bank of Forney desires to waive its right to appear at the hearing in Washington, it may present to you such evidence as it may care to have presented to the Board, provided it gives reasonable notice to you and to the Board of its intention to appear before you. The date which may be designated in the inclosed letter for a hearing before yourself has been left blank in order that you may fill in such date as may be convenient to you, and you are requested to advise the Board as to the date you designate. It is suggested that you designate as early a date as possible in order that any evidence presented to you may be considered by the board of directors of your bank at its next meeting. It is also suggested that the counsel for your bank be present at any hearing held before yourself in this matter in order that he may assist in preparing an appropriate record of any evidence presented and advise with reference to any legal questions which may arise.

"If the Forney State Bank of Forney decides to appear before you, you should hear and make a record of all such evidence as it wishes to present to you and forward, as soon

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"as possible, a transcript thereof to the Board for consideration. Please also submit any information presented by the bank at such a hearing to the board of directors of your bank at its next meeting with the request that the Board of Governors be advised, in view of such information, what action in the opinion of such board of directors the Board of Governors should take in this case. Please also give the Board a statement of your views as to the effect of such information on the question whether the membership of the Forney State Bank of Forney should be forfeited.

"In the event that the Forney State Bank of Forney desires to appear at the hearing at Washington, such officers of the Federal Reserve Bank of Dallas as can testify to the alleged violations of the Federal Reserve Act and the Board's regulations should also be present. On the other hand, if the Forney State Bank of Forney notifies the Board that it waives its right to appear before the Board, there will be no necessity for any representative of the Federal Reserve bank to be present."

Approved unanimously.

The letter to the Forney State Bank of Forney, Forney, Texas referred to above, which was also approved unanimously, read as follows:

"The Board of Governors of the Federal Reserve System has been advised of certain facts which appear to constitute violations by you of the provisions of section 9 of the Federal Reserve Act and of the regulations of the Board made pursuant thereto. It appears that you have loaned money on collateral in excess of the limitations prescribed by section 11(m) of the Federal Reserve Act; that you have paid interest on demand deposits in violation of the provisions of section 19 of the Federal Reserve Act; that you have permitted the character of your assets to change materially and to deteriorate in value since the date of your admission to membership; and that you have failed to exercise your powers with due regard to the safety of your customers.

"In the circumstances, you are hereby notified that the Board of Governors of the Federal Reserve System will hold a hearing in its offices in the Washington Building, Washington, D. C., at 11 o'clock on the morning of June 2nd, 1936, at which time your duly appointed representative or representatives are requested to appear to show cause why the Forney State Bank of Forney should not be required to surrender its stock in the

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"Federal Reserve Bank of Dallas, and to forfeit all rights and privileges of membership in the Federal Reserve System.

"On February 19, 1932, proceedings were instituted by the Board to determine whether membership of the Forney State Bank of Forney in the Federal Reserve System should be terminated in view of certain apparent violations of the provisions of section 9 of the Federal Reserve Act and the regulations of the Board made pursuant thereto. On August 26, 1933, those proceedings were terminated without a final decision upon the question whether or not such apparent violations had been committed. The apparent violations which were cited as a basis for those proceedings are not specifically cited herein, but you are advised that such apparent violations will be given consideration in determining whether or not the membership of the Forney State Bank of Forney in the Federal Reserve System should now be terminated.

"In the event that you desire to waive your right to appear before the Board of Governors of the Federal Reserve System at the time and place hereinabove specified, you may, through your duly appointed representative or representatives, appear before the Federal Reserve Agent, the local representative of the Board of Governors of the Federal Reserve System, in his office in the Federal Reserve Bank of Dallas, at 11 o'clock on the morning of _____, 1936, to present such evidence as you may care to have transmitted to the Board of Governors of the Federal Reserve System for its consideration in determining whether or not you should be required to surrender your stock in the Federal Reserve Bank of Dallas and to forfeit all rights and privileges of membership, provided, however, that you give reasonable notice in advance both to the Board of Governors of the Federal Reserve System and to the Federal Reserve Agent at the Federal Reserve Bank of Dallas of your intention to appear before the Federal Reserve Agent on the date mentioned."

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

"This refers to your letter dated April 8, 1936, regarding the question whether the Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pennsylvania, a State member bank, may lawfully pay interest on uninvested trust funds which are deposited by its trust department in its commercial department and which are payable on demand.

"It is understood that section 3 of the Act of the General

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"Assembly of the Commonwealth of Pennsylvania approved February 26, 1836, P.L. 49, which was a supplement to the Act of March 10, 1812, 3 Smith's Laws 312, under which the company was originally incorporated, reads as follows:

'Upon any sum not less than one hundred dollars which shall be collected or received by said company, in its capacity of trustee, assignee, guardian, committee or receiver, under the order of any court of justice, a reasonable interest shall be allowed, of not less than four per cent. per annum, which interest shall continue to accrue until the moneys so received shall be duly expended and paid over or distributed.'

"As you know, the twelfth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that no member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand and also provides that until the expiration of two years after August 23, 1935, the above prohibition shall not apply to any deposit of trust funds if the payment of interest with respect to such deposit is required by State law.

"In the opinion of the Board, the above-quoted provision constitutes a requirement of State law within the meaning of section 19 and, accordingly, it is the view of the Board that the Pennsylvania Company may now pay interest, accruing on or before August 23, 1937, upon any sum not less than \$100 which shall be collected or received by the Company, in its capacity of trustee, assignee, guardian, committee or receiver, under the order of any court of justice, which is deposited by its trust department in its commercial department and which is payable on demand.

"It is also understood that the Act of March 10, 1812, was amended by section 2 of the Act of March 7, 1872 (P.L. 234) which contains the following provision:

'Provided that the said company (i.e., the Pennsylvania Company) be authorized whenever it so desires, to deposit the same (i.e., uninvested trust funds) in any bank, trust or safety deposit company or savings institution, in which case it shall only be required to allow such an amount of interest as it shall actually receive thereon.'

"It is the view of the Board that the allowance to the beneficiary of such interest as the Pennsylvania Company receives on trust funds deposited in another banking institution does not constitute a payment by the Pennsylvania Company of interest on deposits within the meaning of section

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"19 of the Federal Reserve Act but, instead, constitutes a payment over to the beneficiary of income derived from the trust funds. Accordingly, it is the Board's opinion that the practice of allowing such amount of interest as shall be received from another banking institution on demand deposits of trust funds may be continued after August 23, 1937."

Approved unanimously.

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

"This refers to Mr. Clark's letter of April 18, 1936, and its inclosures, relating to the status of 'The Savannah Corporation', Savannah, Georgia, as a holding company affiliate under the provisions of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935.

"The Board has determined that The Savannah Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, that corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"Inclosed herewith is a letter to The Savannah Corporation advising it concerning the Board's action in this matter. Please transmit the letter to that corporation. A copy of the letter is also inclosed for your files.

"As you will note, the Board expressly reserves the right to make a further determination of this matter at any time on the basis of the then existing facts. In this connection, it is requested that you advise the Board if, at any time, you believe this matter should again be considered by it."

Approved unanimously, together with
a letter to "The Savannah Corporation",
Savannah, Georgia, reading as follows:

"This refers to the application of your corporation for a voting permit entitling it to vote the stock which it owns

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"or controls of 'The Savannah Bank & Trust Company of Savannah', Savannah, Georgia; to the general voting permit issued to your corporation on November 11, 1933; and to your corporation's request that the Board determine that it is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

"The Board understands that your corporation owns or controls 1,751 of the 3,500 outstanding shares of stock of Savannah Bank and Trust Company, but that it does not own or control any stock of, or manage or control, any other bank. In view of these facts, the Board has determined that your corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933, as amended by section 301 of the Banking Act of 1935, and, accordingly, your corporation is not a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act.

"If, however, your corporation should at any time own or control a substantial portion of the stock of, or manage or control any bank other than Savannah Bank and Trust Company, this matter should again be submitted to the Board for its determination. The Board reserves the right to make a further determination of this matter at any time on the basis of the then existing facts.

"In view of the fact that your corporation is no longer a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act, the general voting permit heretofore issued to your corporation is no longer effective. If your corporation is later determined by the Board to be a holding company affiliate subject to the provisions of law relating to voting permits, it will be necessary for your corporation to obtain a new voting permit before the stock which it then owns or controls of any subsidiary member bank may lawfully be voted."

Letter to Mr. J. M. Landis, Chairman of the Securities and Exchange Commission, reading as follows:

"It has come to the attention of the Board of Governors of the Federal Reserve System that section 15(c) of the Securities Exchange Act of 1934, as it would be amended by section 3 of S.4023, 'A Bill to Provide for the Continuation of Trading in Unlisted Securities upon National Securities Exchanges',

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"although apparently not intended to affect banks, is broad enough to authorize the Securities and Exchange Commission to issue regulations governing purchases, sales and other transactions in securities by banks in such a way as to insure investors protection comparable to that provided by the Securities Exchange Act in the case of national securities exchanges and that securities exempted from other provisions of the Securities Exchange Act of 1934 are not exempted from the provisions of this section.

"Inasmuch as member banks of the Federal Reserve System are already subjected to supervision and regulation by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and either the Comptroller of the Currency or the State supervisory authorities, it seems undesirable to subject them to regulation and supervision by any additional Governmental agency or agencies. Furthermore, their transactions in securities are already strictly limited by the provisions of section 21 of the Banking Act of 1933 and, in the case of member banks of the Federal Reserve System, by the provisions of section 5136 of the Revised Statutes and the regulations of the Comptroller of the Currency issued pursuant thereto. Although the provisions of section 5136 are in terms applicable only to national banks, they are made applicable also to State banks which are members of the Federal Reserve System by the provisions of section 9 of the Federal Reserve Act.

"In order to avoid conflicts of jurisdiction and further multiplicity in the regulations governing banks, the Board also believes that it would be desirable to exempt from the provisions of the proposed section 15(c) of the Securities Exchange Act all banks which are members of the Federal Reserve System and, therefore, subject to the provisions of section 5136 of the Revised Statutes governing their transactions in securities and the regulations of the Comptroller of the Currency issued pursuant thereto.

"In addition to the safeguards provided by these provisions of law and the regulations thereunder, another important safeguard against abuses by directors and officers of member banks is contained in the broad authority conferred upon the Board of Governors of the Federal Reserve System by section 30 of the Banking Act of 1933 to remove from office directors and officers of member banks who are guilty of continued violations of law or unsafe or unsound practices in conducting the business of such banks.

"For reasons with which you are familiar, obligations of the United States or any State or any political subdivision or municipal corporation thereof, are exempted from other pro-

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"visions of the Securities Exchange Act of 1934, section 21 of the Banking Act of 1933 and section 5136 of the Revised Statutes and the regulations issued thereunder; but such securities and transactions therein would not be exempted from the provisions of section 15(c) of the Securities Exchange Act as proposed to be amended by S.4023.

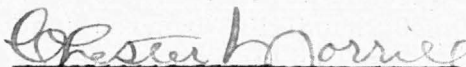
"After careful consideration, the Board is of the opinion that it would be desirable to exempt from the provisions of this section transactions in such classes of securities as are defined as 'exempted securities' in section 3(a)(12) of the Securities Exchange Act of 1934, in conformity with the policy which Congress has heretofore adopted with respect to such securities.

"A draft of a proposed amendment to accomplish these purposes is inclosed herewith; and the Board will appreciate it very much if you will kindly give consideration to the same and advise the Board whether you are willing to recommend to the Committee on Interstate and Foreign Commerce of the House of Representatives that such amendment be adopted before the bill passes the House.

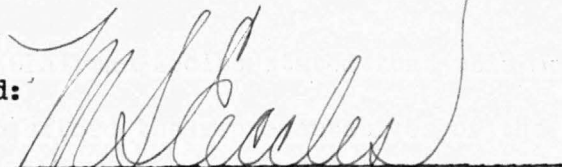
"Your cooperation in this respect will be greatly appreciated."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.