A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, May 6, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
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. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, and Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, 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.

Letter to Mr. Robert R. Batton, Chairman, Commission for Financial Institutions of the State of Indiana, Marion, Indiana, reading as follows:

"Since receipt of your letter of April 20, 1936, suggesting the desirability of a conference to consider regulations relating to interest on deposits issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and State authorities having jurisdiction in the matter, which Mr. Broderick acknowledged under date of May 1, 1936, representatives of the Board of Governors have conferred with reference to the matter with the Chairman of the Federal Deposit Insurance Corporation and members of its staff.

"The Federal Deposit Insurance Corporation, like the Board of Governors, is desirous of reconciling all differences

"between the regulations to the fullest extent practicable. As a result of our consultation with the representatives of the Federal Deposit Insurance Corporation, however, it is believed that it would be helpful to all concerned if you would write us specifically the problems which have arisen in connection with the various regulations which you feel it would be appropriate to consider and which have given rise to competitive disadvantages or complaints on the part of the banks affected. It is felt that after reviewing the points which you may suggest, in addition to the one referred to in your letter which relates to requiring actual notice of at least 30 days before payment of savings deposits, it may be desirable to invite a representative of your department to come to Washington to discuss these matters with the Board of Governors and the Federal Deposit Insurance Corporation, with a view to a mutual understanding of the problems involved and their possible solution.

"Assuring you of our desire to cooperate with your department in every possible way, I am"

Approved unanimously.

In connection with the above letter, consideration was given to a memorandum dated May 4, 1936, from Mr. Wyatt, General Counsel, stating that, unless the Board instructed otherwise, representatives of the Board's staff would meet with representatives of the staff of the Federal Deposit Insurance Corporation to discuss the differences between the regulations of the Board and the Federal Deposit Insurance Corporation with regard to interest on deposits with a view to eliminating by mutual agreement as many differences in the regulations as may be possible.

Letter to Mr. A. L. Doris, Deputy Comptroller, Department of Audit and Control, Albany, New York, reading as follows:

"This refers to Mr. Haner's letter of February 25, 1936, to Mr. Broderick and to the later correspondence regarding the question whether member banks in New York may pay interest on deposits of funds paid into court which have been placed under the supervision of the State

"Comptroller pursuant to the provisions of subdivision 8 of section 4 and sections 44-a to 44-f (inclusive) of the New York State Finance Law. As Mr. Broderick advised you, this matter has been taken up with Counsel for the Federal Reserve Bank of New York and Counsel for the Board has given careful study to the question.

"Under the definitions contained in section 1 of Regulation Q, a deposit in a member bank may not be classified as a time deposit unless it is payable on a certain date not less than 30 days after the date of deposit or upon written notice of not less than 30 days. It is understood that these deposits of funds paid into court are payable on demand and, accordingly, they may not be classified by a member bank as time deposits. The Board has given consideration to the fact that these deposits are inactive but feels that it does not have authority under the law to define the term 'time deposit' so as to include a deposit which is actually payable on demand.

"Section 19 of the Federal Reserve Act and section 2 of Regulation Q provide that no member bank shall pay interest on any deposit which is payable on demand but also provide that until the expiration of two years after the date of enactment of the Banking Act of 1935, this prohibition shall not apply to any deposit of trust funds if the payment of interest with respect to such deposit of trust funds is required by State law when such deposits are made in State banks.

"Subdivision 11 of section 188 of the New York State Banking Law, as amended, provides that on all sums of not less than $100 held by a trust company acting as depositary of money paid into court, 'interest shall be allowed' by such trust company from 60 days after the receipt thereof at a rate provided in the statute. It is the view of the Board that the deposits under consideration constitute deposits of trust funds and that this provision constitutes a requirement of State law, within the meaning of section 19 of the Federal Reserve Act, for the payment of interest on deposits of trust funds which are payable on demand. Accordingly, the Board is of the opinion that member banks located in New York may, until August 24, 1937, pay interest on deposits of funds paid into court which have been placed under the supervision of the State Comptroller, even though such deposits are payable on demand.

"While it is realized that what is said above may not provide an entirely satisfactory solution to your problem, it is believed that you will appreciate that the difficulties arise from the law itself and the Board hopes that the fact

"that member banks may until August 24, 1937, pay interest on demand deposits of these funds which have been paid into court will be of some assistance to your department in dealing with the matter."

Approved unanimously.

Letter to Mr. Leake Ayres, President, The First National Bank of Gatesville, Gatesville, Texas, reading as follows:

"This refers to your letter of April 28, 1936, in which you inquire whether an exception may be made in the Board's Regulation O which will enable your bank to make loans to a corporation, the controlling interest of which is held by the vice president of your bank, who is inactive. It is noted that loans to the corporation are usually made on the guarantee of your vice president.

"The Board has heretofore taken the position that, where no attempted evasion of the law is involved, loans by a member bank to a corporation in which an executive officer of the member bank is substantially interested are not in contravention of section 22(g) of the Federal Reserve Act. In this connection, your attention is invited to the Board's ruling contained on page 249 of the Federal Reserve Bulletin for April 1936, a copy of which is inclosed. However, if the executive officer should indorse or guarantee the obligation of such corporation he would become indebted to the member bank within the meaning of the definition contained in subsection (c) of section 1 of Regulation O, in which case the ruling just referred to would not be applicable. A copy of Regulation O is also inclosed for your information.

"Under the provisions of section 22(g), the Board is authorized to define the term 'executive officer' and to prescribe such regulations as it may deem necessary to effectuate the provisions of section 22(g) in accordance with its purposes and to prevent evasions of such provisions. At the time of its consideration of Regulation O, the Board was aware of the fact that some member banks had honorary or inactive officers whose titles were such as to cause the public to consider them executive officers. The Board also gave consideration to the fact that a vice president, although inactive, is in a position to exercise actively the duties of his office should occasion arise. Moreover, Congress, in enacting section 22(g), did not make a distinction between active and inactive officers. In the circumstances, the Board

"felt that, in discharging its responsibility under the law, it was not justified in excluding a vice president of a member bank from the definition of the term 'executive officer', even though such officer might be inactive. The regulation prescribed by the Board is applicable to all member banks alike and the Board does not feel that it should make any exceptions in particular cases where the officer covered by the regulation is inactive, since to do so would not be fair to other banks to which the regulation applies."

Approved unanimously.

Letter to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of April 23, 1936, requesting an interpretation of the underscored portion of the following provisions of the twentieth paragraph of section 9 of the Federal Reserve Act:

'After the date of the enactment of the Banking Act of 1935, no certificate evidencing the stock of any State member bank shall bear any statement purporting to represent the stock of any other corporation, except * * * a corporation engaged on June 16, 1934, in holding the bank premises of such member bank, * * *.' (Underscoring added.)

The question is whether such exception is limited to corporations engaged solely in holding the bank premises of the affiliated bank.

"Prior to the enactment of the Banking Act of 1935, such statutory provisions read as follows:

'After one year from the date of the enactment of the Banking Act of 1933, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except * * * a corporation existing on the date this paragraph takes effect engaged solely in holding the bank premises of such State member bank, * * *.' (Underscoring added.)

"The memorandum accompanying your letter correctly summarizes the legislative history of the provisions of the Banking Act of 1935 amending the above-quoted provisions of section 9 of the Federal Reserve Act and the corresponding provisions of section 5139 of the Revised Statutes of the

"United States relating to national banks. The Board concurs in your counsel's opinion that, in view of such legislative history, the exception, in its present form, can not properly be interpreted as being limited to corporations engaged solely in holding the bank premises of the affiliated bank."

Approved unanimously.

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

"This refers to the letter of Mr. A. H. Sonne, Assistant Chief Examiner, dated December 3, 1935, regarding certain questions raised by Mr. Swengel, one of your examiners, with regard to bank loans which come under the provisions of the Securities Exchange Act of 1934 and as to examining procedure in connection with such loans. Specifically, Mr. Swengel asks:

1. Is a bank on notice to restrict such credits as it may grant to members of national security exchanges and/or brokers and/or dealers to the margin requirements, as set forth in Regulation T?

2. To what extent is an examiner, as incidental to examination of a bank, expected to investigate loans to brokers and dealers? In particular, is it necessary to investigate all transactions in connection with a loan, including substitutions and withdrawals of collateral made since inception of the loan or since previous examination?

"Since Mr. Swengel's letter was written the Board has issued Regulation U which relates to loans made by banks on and after May 1, 1936, for the purpose of purchasing or carrying stocks registered on a national securities exchange and Regulation U, rather than Regulation T, is the regulation governing bank loans under the Securities Exchange Act.

"In their examinations of a member or nonmember bank, your examiners should see that all loans outstanding on the date of examination and subject to Regulation U comply with the provisions thereof, and any violations of the regulation should be reported. The compliance or noncompliance of a loan with the regulation depends upon the circumstances at the time a loan was made or increasedand the circumstances in connection with the withdrawal or substitutions of collateral, and not upon subsequent variations in the value of the collateral. As a practical matter it would seem that in most

"cases if a loan were found to comply at the time of the examination with the requirements of the regulation as of that date, no further investigation under the regulation need be made. However, if the examiner has reason to believe that the loan may have been made or handled in violation of Regulation U, because the loan value of the collateral at the time of examination is barely sufficient and there has been a substantial rise in its value since the date of the loan, or for other reasons, he should then make appropriate investigation to determine whether such has been the case. Also, if the examiner has reason to believe that in connection with loans no longer held other violations of Regulation U have occurred since the previous examination, he should make appropriate investigation of such transactions and report any violations disclosed.

"Under the provisions of the Securities Exchange Act of 1934 itself, it is unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member, to borrow in the ordinary course of business as a broker or dealer on any registered security other than an exempted security from any nonmember bank unless such nonmember bank shall have filed with the Board of Governors of the Federal Reserve System an agreement which is still in force and which is in the form prescribed by the Board's Regulation T. Your examiners, therefore, should report any instances discovered in their examinations of nonmember banks (in connection with applications for membership or because of affiliate relationships or for other special reasons) where nonmember banks which have not executed the agreement referred to in Regulation T have made loans of the type described above.

"It is to be noted also that those few member or nonmember banks which are members of registered securities exchanges are subject to Regulation T to the same extent as other members of such an exchange, in their loans to other members, or to brokers or dealers.

"This letter relates to the specific questions discussed and does not attempt to cover all possible implications of the Securities Exchange Act and Regulation U as they may affect bank loans. It is contemplated that, after Regulation U has been in effect and rulings and interpretations have been issued thereunder, further instructions will be forwarded as a guide to examiners."

Approved unanimously, with the understanding that a copy of the letter would be forwarded to all Federal reserve agents for their information.

Letter to Mr. J. Harvie Wilkinson, Jr., Vice President, State-Planters Bank and Trust Co., Richmond, Virginia, reading as follows:

"This refers to your letter dated March 24, 1936, addressed to the Comptroller of the Currency, which has been referred to the Board of Governors of the Federal Reserve System for reply. You request a ruling as to whether a State member bank of the Federal Reserve System is permitted to purchase called preferred stock.

"As you know, under the provisions of section 5136 of the Revised Statutes and section 9 of the Federal Reserve Act, State member banks are not permitted to purchase stock for their own account.

"After considering this matter in the light of the decisions of the courts on similar questions, it is the view of the Board that preferred stock which has been called for redemption or retirement must still be considered as stock within the meaning of section 5136 of the Revised Statutes and, therefore, may not be purchased by a State member bank for its own account."

Approved unanimously, together with a letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Lyons' letter of April 7, 1936, inclosing a copy of a letter dated March 24, 1936, from the State-Planters Bank and Trust Co., Richmond, Virginia, presenting the question whether a State member bank is permitted to purchase called preferred stock for its own account. Mr. Lyons requested that your office be furnished with a copy of the Board's reply to the above letter.

"There is inclosed herewith a copy of the Board's reply stating that, in the light of the decisions of the courts on similar questions, it is the view of the Board that called preferred stock must still be considered as stock within the meaning of section 5136 of the Revised Statutes and, therefore, may not be purchased by a State member bank for its own account.

"Before writing the inclosed letter to the State member bank, members of the Board's legal staff conferred with members of your legal staff regarding this matter. However, if you are not in agreement with the ruling expressed in such letter, it will be appreciated if you will so advise the Board."

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"Receipt is acknowledged of your recent letter requesting approval of the employment of the law firm of Taylor, Miller, Busch & Boyden of Chicago as special counsel to assist your counsel in the above matter. (Claim of Liquidating Trustees of Fletcher American National Bank of Indianapolis, Indiana.)

"Since receipt of your letter the Board, on April 15th, 1936, supplementing its previous ruling of February 15, 1926, issued a ruling (X-9548) with respect to the employment of special counsel. This last ruling would seem to be applicable to the employment of Messrs. Taylor, Miller, Busch & Boyden. However, in view of the fact that your request antedates the last mentioned ruling, the Board has considered the same and approves the employment of Messrs. Taylor, Miller, Busch & Boyden in the aforesaid capacity subject to the conditions outlined in its ruling of April 15th, 1936."

Approved unanimously.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This is to advise that the Board of Governors of the Federal Reserve System approves the employment of the firm of Mayer, Meyer, Austrian & Platt and Mr. Adelbert Brown for the purpose of contesting the illegal part of the assessment upon your building for the year 1934, upon a contingent fee basis of not less than 5% nor more than 10% of the savings on the taxes, exclusive of certain court costs referred to in your letter. It is understood that the total fee will depend upon the work involved and the number of parties who are joined in the action."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: M S Eccles
Chairman.

Chester Morrill
Secretary.