

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 11, 1936, at 2:30 p. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Paulger, Chief of the Division of
Examinations
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Parry, Chief of the Division of
Security Loans
Mr. Vest, Assistant General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Bradley, Assistant Chief of the Division
of Security Loans
Mr. Thomas, Assistant Chief of the Division
of Research and Statistics
Mr. Benedict, Assistant Counsel

There was brought to the attention of the Board a memorandum prepared by Mr. Vest under date of June 9, 1936, regarding the provisions of the Act of Congress approved March 14, 1936, regarding the issuance of regulations setting forth the hours of duty for employees and requiring the maintenance of a record of over-time duty of employees and reports thereof to the Civil Service Commission. The Board discussed the questions involved, but no conclusion was reached as to the action to be taken.

At this point Mr. Vest withdrew from the meeting.

Consideration was given to suggested amendments to Regulation "T", Extension and Maintenance of Credit by Brokers, Dealers and Members

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of National Securities Exchanges, and Regulation "U", Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, recommended by Mr. Parry for adoption at this time. There was considerable discussion of some of the various proposed amendments, which resulted in an agreement to defer action until a later date. During the discussion the members of the Board agreed upon the adoption of the proposed amendments to section 2 of Regulation "U" set forth in Mr. Parry's memorandum of June 10, when the other proposed amendments submitted in Mr. Parry's memorandum are taken up for consideration.

At this point Messrs. Thurston, Wyatt, Paulger, Smead, Parry, Dreibelbis, Bradley, Thomas, and Benedict left the meeting and consideration was then given to each of the following matters and the action stated with respect thereto was taken by the Board:

Telegram to Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated June 8, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending the appointment of Mr. Frederick C. Dirks as a junior research assistant in the Division, with salary at the rate of \$2,800 per annum, effective as of the date upon which he enters upon the performance of his duties after

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having passed satisfactorily the usual physical examination.

Approved unanimously.

Letter to the board of directors of the "Bank of Lansing", Lansing, Michigan, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special conditions, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. As soon as practicable such bank, if it has not already done so, shall stamp in legible form on each certificate of stock of the bank outstanding subject to the provisions of the agreement hereinafter referred to regarding the assignment of dividends, and, so long as such agreement is in force, shall stamp on any other certificates of stock which, by reason of transfer or otherwise, may subsequently be outstanding and subject to such agreement, a legend reading substantially as follows:

'All dividends on the stock represented by this certificate have been assigned, in accordance with an agreement a copy of which is on file with the Bank of Lansing, Lansing, Michigan, to the directors of such bank for distribution to those concerned until certain contributions and pledges have been repaid.'
- "6. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$12,172.34, as shown in the report of examination as of April 20, 1936, made by an examiner for the Federal Reserve Bank of Chicago, and likewise prior to admission to membership, such bank shall reduce the aggregate amount of the carrying value of its banking house and furniture and fixtures by not less than \$15,000."

Approved unanimously, together with

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a letter to Mr. Young, Assistant Federal Reserve Agent at the Federal Reserve Bank of Chicago, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Bank of Lansing', Lansing, Michigan, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of the Banking Department for the State of Michigan for his information.

"It has been noted that, while there appear to be several aspects regarding the conditions under which certain of the bank's directors and stockholders are to be reimbursed for the cash and securities advanced to assist the institution which are not clear, your counsel feels that any objection in so far as the liability of the bank to the contributors is concerned may safely be waived. It is assumed that the intent of the agreement whereby stockholders have assigned dividends on the stock for the purpose of effecting the reimbursement referred to above is clear to the stockholders and directors. It is suggested, however, that, in order to avoid any future controversy, consideration be given to the advisability of clarifying the agreement by appropriate action, particularly with reference as to the situation with respect to the assets which had been purchased prior to the execution of the agreement and apparently turned over to the purchasers, but the purchase price of which is included in the amount to be repaid as specified in the agreement."

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

"In the report of examination of the trust department of 'The Union and New Haven Trust Company', New Haven, Connecticut, made as of October 7, 1935, the examiner for your bank has presented the question whether a deposit of trust funds in a State nonmember bank by The Union & New Haven Trust Company in excess of 10 per cent of the capital and surplus of the latter is a violation of the following condition of membership to which it is subject:

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"Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve System, and shall at all times maintain such balances within such limit.'

Section 19 of the Federal Reserve Act provides, in part, that:

'No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus.'

"While the condition of membership does not adopt the precise language used in section 19 of the Federal Reserve Act, the Board feels that, in so far as the present question is concerned, the same interpretation should be given to both requirements.

"As you know, in a ruling published on page 572 of the Federal Reserve Bulletin for the year 1922, the Board distinguished between trust funds deposited in another member bank by a member bank as fiduciary and deposits made by the member bank in its own right and ruled that a deposit falling within the former classification should be treated by the depositary member bank as an individual deposit rather than a bank deposit and, therefore, may not be included by the depositary bank among the amounts due to 'other banks' from which the amounts due from other banks may be deducted in computing its required reserve under the provisions of section 19 of the Federal Reserve Act.

"While the provision of section 19 of the Federal Reserve Act giving rise to the 1922 ruling was amended by the Banking Act of 1935, the Board is of the opinion that the principle announced in that ruling should be applied in the present case. In the circumstances, you are advised that a deposit of trust funds with a State nonmember bank by a member bank as fiduciary in excess of 10 per cent of the member bank's capital and surplus is not prohibited by the provision of section 19 or the condition of membership quoted above. Attention is also called to the fact that the limitation contained in this provision and in the condition of membership is based upon a specified percentage of the 'capital and surplus' of the member bank and that it would be possible for all the funds of one trust to be deposited with a nonmember bank and still not exceed such specified percentage. It would seem that, had Congress intended the limitation of section 19 to apply to a deposit of trust funds, it would have provided

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"an appropriate limitation for the protection of individual trusts bearing a relation to the funds of each individual trust rather than to the capital and surplus of the member bank.

"Of course, in any case a bank exercising fiduciary powers is charged with the responsibility of exercising due care in handling the funds of any trust which it is administering and, in carrying out its responsibility, such a bank, when it deposits trust funds in another bank, must among other things give consideration to what part of the funds of any individual trust and what aggregate amount of trust funds it is justified in depositing in any other single bank. If, in the light of comments contained herein, you or your examiner should feel at any time that The Union and New Haven Trust Company or any other member bank has not exercised appropriate care in depositing trust funds in another bank, you should take the matter up with the member bank."

Approved unanimously.

Letter to Mr. Israel Abramovitz, Canarsie, Brooklyn, New York, reading as follows:

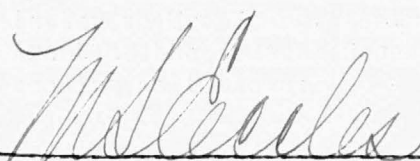
"Reference is made to your letter of June 3 reciting the circumstances surrounding a certain margin call from a brokerage firm, and enclosing a copy of a letter from the firm to you concerning the extension of time in which to answer the margin call.

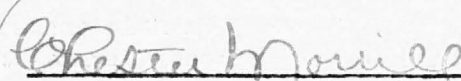
"The provision of the Board's Regulation T which authorizes a committee on business conduct to grant an extension of time, not exceeding 10 days, reflected the judgment of the Board that the 10-day period was sufficiently long to provide for exceptional cases. The Board regrets to advise you that it has made no exceptions to this provision of its regulation and does not feel that it would be consistent with the purposes sought to be accomplished by the regulation for it to do so in a case arising from such circumstances as are set forth in your letter."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.