

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, July 13, 1936, at 11:00 a. m.

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

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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 11, 1936, were approved unanimously.

Telegrams to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, and Mr. Walsh, Chairman of the Federal Reserve Bank of Dallas stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"This refers to a letter dated June 30 from Mr. Strater, Secretary of the Board of Directors of your bank, requesting approval of the Board of Governors of the Federal Reserve System of the discontinuance of Acting Assistant Federal Reserve Agents at the Cincinnati and Pittsburgh Branches.

"It is understood that the proposed plan is in accordance with that set forth in the Board's letter X-6766

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"of November 25, 1930, and that unissued Federal Reserve notes at each of the branches will be held in chests under triple control, one of the combinations of which will be held by you and your Assistant Federal Reserve Agent, one by a representative of the Auditing Department, and one by an officer of the Branch, and that notes will be issued to the branches upon telegraphic releases of the combinations held by you. It is also understood that when a Branch wishes to return fit Federal Reserve notes to you your Assistant Federal Reserve Agent will visit the Branch for the purpose of taking over such notes and placing them in chests which will be under triple control as indicated above. A similar plan is now in use at a number of branches and the Board approves its adoption by the Federal Reserve Bank of Cleveland. It will be appreciated if you will advise the Board of the date the revised plan becomes effective and will furnish to the Board a copy of the agreement between yourself and the Federal Reserve bank executed in accordance with the requirements of the Board's letter of November 25, 1930, and a copy of the resolution of the board of directors of the bank authorizing the execution of such agreement."

Approved unanimously.

Memorandum dated July 9, 1936, from Mr. Parry, Chief of the Division of Security Loans, submitting, in accordance with the action taken at the meeting of the Board on July 7, 1936, a proposed statement of procedure with reference to the selection of persons to handle the work at each Federal reserve bank under the Securities Exchange Act of 1934.

The proposed statement read as follows:

"It is further contemplated that the work heretofore handled by the Federal Reserve Agents in connection with administration of the Securities Exchange Act of 1934 will also be transferred to the banking departments with the understanding that this work, like the examination work and the research work, will, as heretofore, be conducted under the general supervision of the Board of Governors. The conditions of transfer contemplated by the plan do not include any specifications as to whether the reserve bank shall have a separate unit for doing this work, as this would appear at present to be necessary at only a few of the Federal

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"Reserve banks, but it is expected that all appointments or assignments of persons to supervisory positions in handling this work at each Federal Reserve bank will be subject to the approval of the Board of Governors."

Approved unanimously.

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

"This refers to your letter dated June 12, 1936, with which was inclosed a copy of a letter from the Vice President and General Counsel of the First National Bank and Trust Company, Minneapolis, Minnesota, presenting the question whether deposits of certain organizations may be classified by member banks as savings deposits under the provisions of section 1(e) of Regulation Q.

"It is the view of the Board that deposits of business groups, such as the Rotary Club and Kiwanis Club, and of professional associations, such as bar associations, medical associations, and dentists associations, may not be classified by member banks as savings deposits because such organizations are not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes within the meaning of section 1(e) of Regulation Q. Likewise, deposits of luncheon or dinner clubs, the primary purpose of which is social, may not be classified by member banks as savings deposits because they are not operated primarily for the purposes stated above. All of the above rulings are based upon the fact that the organizations are not operated primarily for the purposes stated in section 1(e) of Regulation Q and are made without regard to the question whether or not the organizations are operated for profit.

"The question is also presented as to whether deposits of mutual benefit clubs or societies may be classified as savings deposits. These clubs and societies are described as follows:

"They include such organizations as Minneapolis Police Benevolent Association, which has established a fund to take care of the families of deceased members, said fund being made up of contributions by the members and proceeds derived from annual policemen's balls and other entertainment. Another example is an association made up of all of the maintenance of way

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"employees of a certain large railway company, each of whom contributes to a fund which is used to take care of members in distress and matters of that kind."

"Although it is believed to be undesirable to make a ruling applicable to all mutual benefit clubs and societies without examining the facts of each particular case, it is the view of the Board that organizations of the kinds described in the above-quoted paragraph may be considered as organizations operated primarily for the purposes stated in section 1(e) of Regulation Q and that deposits of such organizations may be classified by member banks as savings deposits if they meet the other requirements of the regulation.

"With respect to publications of professional associations, such as the Minnesota Law Review, it is believed that the ruling published at page 119 of the Federal Reserve Bulletin for February, 1936, provides an answer to the question presented. In the published ruling, the Board stated that if the non-profit organizations in question are operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and if the publications of such organizations are issued only as an incident to the fulfillment of their purposes and not for profit, deposits of such publications may be classified as savings deposits, if such deposits meet the other requirements of the definition. However, in view of the fact that the Board is not informed as to the organization which publishes the Minnesota Law Review, it is unable to express an opinion upon the question whether this deposit may be classified by a member bank as a savings deposit.

"It will be appreciated if you will advise the First National Bank and Trust Company of the Board's views regarding the above matters."

Approved unanimously.

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

"Reference is made to Mr. Young's letter of July 1 quoting a resolution adopted by the Board of Directors of your bank on June 26, 1936, in which it directs that, subject to the approval of the Board of Governors of the Federal Reserve System, reserves now carried on the books of the bank for losses on foreign investments, for depreciation on United States Government direct obligations, for other losses, and

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"in a special reserve fund, aggregating \$4,225,474.09, be consolidated into one account. It is understood that if the above mentioned reserves are consolidated into a single account, the bank will then have, apart from reserves deducted from assets, three reserve accounts, one of which will represent a consolidation of the above mentioned reserves, one a reserve for self-insurance, and one a reserve to cover payments to the Retirement System for the bank's prior service liability.

"The Board approves the consolidation of the above mentioned reserves which should be reported on Form 34 against the caption 'Reserves for losses not elsewhere provided for'. It is suggested that the reserve to cover payments to the Retirement System on account of the bank's prior service liability be shown separately on Form 34."

Approved unanimously.

Letter to the presidents of all Federal reserve banks, reading as follows:

"There are inclosed herewith for your information and that of your counsel two copies of a letter addressed by the Commissioner of Internal Revenue to the Comptroller of the Currency under date of July 8, 1936, expressing the opinion of the Bureau of Internal Revenue that national banks are instrumentalities of the United States within the meaning of the provisions of the Social Security Act and that neither the banks nor their employees are subject to the taxes imposed by the Act."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"There are inclosed herewith for your information copies of the following:

1. Letter dated May 6, 1936, and inclosures, from the Assistant Federal Reserve Agent at Cleveland to the Board.
2. Letter dated May 29, 1936, from the Deputy Comptroller of the Currency to the Board.
3. Letter dated July 13, 1936, from the Board to the Assistant Federal Reserve Agent at Cleveland.

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"These letters relate to the question whether, under the provision of section 5136 of the Revised Statutes which states that the total amount of the investment securities of any one obligor or maker, held by a bank for its own account, shall not exceed at any time 10 per cent of the bank's capital and surplus, the words 'obligor or maker' include, in addition to a corporation primarily liable on an obligation, another corporation which has guaranteed such obligation, a parent corporation, or a lessor corporation."

Approved unanimously, together with a letter to Mr. Evans, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to your letter of May 6, 1936, and inclosures, presenting the question whether, under the provision of section 5136 of the Revised Statutes which states that the total amount of the investment securities of any one obligor or maker, held by a bank for its own account, shall not exceed at any time 10 per cent of the bank's capital and surplus, the words 'obligor or maker' include, in addition to a corporation primarily liable on an obligation, another corporation which has guaranteed such obligation, a parent corporation, or a lessor corporation.

"Copies of your letter and its inclosures were submitted to the Comptroller of the Currency for an expression of his views thereon, and a copy of his reply is inclosed herewith."

Thereupon the meeting adjourned.

Chester Morley
Secretary.

Approved: W. S. Scales

Chairman.