

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, July 16, 1936, at 11:30 a.m.

PRESENT: Mr. Broderick
Mr. Szymczak
Mr. McKee
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 15, 1936, were approved unanimously.

Memorandum from Mr. Paulger dated July 13, 1936, recommending that the Board grant two weeks additional leave of absence with pay, on account of illness, beginning July 13, 1936, to Assistant Examiner T. B. O'Donnell in order that he might recover from a mastoid operation, it being understood that should he be able to report for duty prior to the expiration of such extended leave he will do so.

Approved unanimously.

Telegram to Mr. Fletcher, Assistant Federal Reserve Agent at the Federal Reserve Bank of Cleveland, referring to the application of "The Marysville-Commercial Bank", Marysville, Ohio, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months

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notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to The Marysville-Commercial Bank, the Federal Reserve Bank of Cleveland is authorized to cancel such stock and make appropriate refund thereon.

Approved unanimously.

Letter to Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of June 5, 1936, inquiring whether the indebtedness of Mr. Craig MacQuaid, President of the United Bank and Trust Company, St. Louis, Missouri, to the Mercantile-Commerce Bank and Trust Company in its capacity as trustee of the estate of Lorenzo E. Anderson should be reported by Mr. MacQuaid to the board of directors of the United Bank and Trust Company in order to comply with the requirements of section 22(g) of the Federal Reserve Act and section 5 of the Board's Regulation O.

"It is understood that Mr. MacQuaid became personally indebted to Lorenzo E. Anderson & Company, a brokerage firm, in 1924 as a result of losses sustained by him in connection with certain stock transactions; that upon the death of Mr. Anderson the indebtedness in question was included in the assets of his estate which is now being administered by the Mercantile-Commerce Bank and Trust Company as trustee; and that Mr. MacQuaid gave his renewal note covering such indebtedness to the trustee bank in 1929.

"Section 22(g) of the Federal Reserve Act provides, in part, that if any executive officer of a member bank be indebted to any bank other than a member bank of which he is an executive officer he shall make a written report of such indebtedness to the board of directors of the member bank of which he is an executive officer, and section 5 of the Board's Regulation O provides, among other things, that an executive officer of a member bank who, on the effective date of such regulation, is indebted to any bank other than the member bank of which he is an executive officer shall make the report required by the law. It appears from the facts stated above that Mr. MacQuaid was indebted to the Mercantile-Commerce Bank and Trust Company, as trustee, on the date of the enactment of section 22(g) and also on the effective date of the

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"Board's Regulation O and is now so indebted, and the only question is whether the indebtedness to the bank in its capacity as trustee is required to be reported.

"The Board's ruling dated March 20, 1936 (X-9528), referred to in your letter, related to an indebtedness of an executive officer of a member bank to another bank arising as a result of the lending of trust funds but the effect of such ruling was to disregard any technical distinction between a bank lending funds in its own capacity or in its capacity as trustee. The fact that the original indebtedness of Mr. MacQuaid did not arise as a result of the lending of trust funds by the trustee bank but accrued to the trustee bank by virtue of its appointment as trustee is not sufficient to remove the transaction from the provisions of the law. It is apparent that Congress contemplated that the board of directors of a member bank should be advised of the indebtedness of the executive officers of such bank to other banks without regard to the manner in which the indebtedness arose and, therefore, the indebtedness in question should be reported by Mr. MacQuaid as provided in section 5 of the Board's Regulation O.

"Your letter also referred to the question whether the examiner for the Federal Reserve bank should advise the directors of the United Bank and Trust Company of Mr. MacQuaid's indebtedness to the Mercantile-Commerce Bank and Trust Company. Of course, it would be more desirable for Mr. MacQuaid to make the required report of his indebtedness than for the examiner to have to make a report of such indebtedness to the directors of Mr. MacQuaid's bank, and it is assumed that Mr. MacQuaid will make the required report upon receipt of advice of the Board's ruling in the matter. Please advise the Board of the disposition which is made of this matter and, if it should become necessary, further consideration can be given to the question whether the examiner for the Federal Reserve bank or your office should take any action in calling the matter to the attention of the directors of the United Bank and Trust Company."

Approved unanimously.

Letter to Mr. F. Shepard Cornell, New York City, reading as follows:

"Receipt is acknowledged of your letter of July 3

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"addressed to the Chairman of the Securities and Exchange Commission and referred by the Commission to the Board of Governors of the Federal Reserve System.

"Your letter deals with the current state of the brokerage business as affected by the present margin requirements. This condition, along with other factors in the situation, is being given careful study by the Board."

Approved unanimously.

Letter to the Secretary of the Treasury, reading as follows:

"Reference is made to my letter to you under date of July 31, 1935, with respect to the absorption by the Federal reserve banks of the cost of sending over the Federal reserve leased wires telegrams chargeable to the Treasury appropriation for miscellaneous and contingent expenses, and to my letter of November 21, 1935, to Mr. McReynolds in which I advised that, in view of assurances that there had been included in the Treasury estimates of expenses for the fiscal year 1937 an amount sufficient to permit of reimbursement for the telegrams in question and that the Treasury Department would do all that it could to have the item included in its appropriations, the Board would continue to handle such telegrams without reimbursement during the remainder of the fiscal year 1936 with the understanding that if funds were not obtained the Treasury Department would make some other arrangement under which the Federal reserve banks would be relieved of this expense. In a letter dated November 25, 1935, Mr. McReynolds stated that he would be glad to advise the Board of the action taken by Congress on the requested appropriation.

"Upon approval on June 23, 1936, of the Treasury Department Appropriation Act, 1937, the matter was taken up again with the Treasury and a letter was received by the Board on June 30 from Mr. McReynolds in which he stated that no amount had been included in the appropriation for contingent expenses to enable the Department to make reimbursement for the telegraph service in question and that it would be thoroughly appreciated if the Board would find it possible to continue the telegraph service without reimbursement.

"The appropriation for miscellaneous and contingent expenses which, among other things, contains express authority for the payment of telegraph and telephone expenses, is in the sum of \$155,000, and provides, in addition to this amount, that 'the appropriations for the Public Debt Service,

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"Internal Revenue Service, Federal Alcohol Administration, and Division of Disbursement for the fiscal year 1937 are hereby made available for the payment of items otherwise properly chargeable to this appropriation'. Therefore, it appears to the Board that there is ample legal authority for the payment of the cost of the telegrams designated by the Treasury as chargeable to this appropriation.

"Accordingly, in view of the long time this matter has been pending, the fact that the total amount of the Treasury expense absorbed by the Federal reserve banks in this connection has exceeded \$45,000 to April 1, 1936, and the further fact that if the messages were handled commercially the Treasury Department would be faced with the necessity of paying therefor, the Board has requested me to advise that it does not feel justified in continuing the present arrangement after this month, and if the Treasury Department is not in a position to pay for the telegrams, some arrangement should be made under which the Board and the Federal reserve banks will be relieved of the further absorption of this expense.

"It will be appreciated if you will advise me at your early convenience as to the action which will be taken."

Approved unanimously.

Thereupon the meeting adjourned.

Robert M. ...
Secretary.

Approved:

J. B. ...
Member.