

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 26, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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

Letter to Mr. Newton, President of the Federal Reserve Bank of Atlanta, reading as follows:

"Reference is made to Mr. Clark's letter of August 14, 1936, inclosing a copy of the resolution adopted by the board of directors of your bank on that date appointing Mr. W. S. McLarin, Jr., and Mr. L. M. Clark as Vice Presidents of the bank, such appointments to be effective upon the transfer of the non-statutory duties from the Federal Reserve Agent's Department to the bank.

"Advice of approval by the Board of the salary to be fixed by your directors for Mr. Clark as Vice President was contained in my letter of August 20, 1936, and this letter is to advise that, effective with the transfer of the non-statutory duties of the Federal Reserve Agent to the bank, the Board approves for Mr. McLarin as Vice President a salary at the rate of \$7,500 per annum for the remainder of the current year."

Approved unanimously.

Letter to the board of directors of the "Thomson State Bank", Thomson, Illinois, stating that, subject to the conditions of member-

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ship numbered 1 to 3 contained in the Board's Regulation H, and the following special conditions, the Board approves 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. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$1,648.50, as shown in the report of examination of such bank as of July 21, 1936, made by an examiner for the Federal Reserve Bank of Chicago.
- "6. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer, or in lieu of the certificates now outstanding, a legend reading substantially as follows:

Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Deferred Certificates issued by the bank to certain depositors who waived the payment of a part of their deposits in 1933 pursuant to Waiver Agreements, copies of which are on file with Thomson State Bank, must be paid.

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 6, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Deferred Certificates to the rights of stockholders.)"

Approved unanimously, together with

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Thomson State Bank', Thomson, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"The papers submitted with the bank's application did not include a copy of its application to organize. Your counsel has stated that, since the bank has submitted a copy of the certificate of authority to organize and the certificate to commence business issued to it by the State authorities, the submission of the application to organize 'may be safely waived'. However, as pointed out in the Board's letter of January 20, 1936, regarding the I-C Bank and Trust Company, Chicago, Illinois, such an application is analogous to the articles of incorporation usually executed in connection with the organization of a bank in other States, and, in order that the Board's records may be complete, it will be appreciated if you will obtain and forward to it a copy of the application to organize executed by the Thomson State Bank."

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of August 18, 1936, advising of the progress made by The Lorain Street Bank, Cleveland, Ohio, in complying with its condition of membership numbered 17, which reads as follows:

'Within six months after its admission to membership, such bank shall obtain, by court order or otherwise, full release from any fiduciary responsibility in connection with all trust accounts in which it had been acting in a fiduciary capacity and from which responsibility such bank had not previously been legally discharged.'

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"On February 20, 1936, the Board extended to August 21, 1936, the time within which the bank may comply with the foregoing condition, and it is understood that all trust matters have now been disposed of, with the exception of one case in which litigation is pending in the local court.

"In view of the facts and circumstances as set forth in your letter and in the report of examination as of February 17, 1936, the Board feels that the condition of membership in question has been substantially complied with and that no further extension of time is required. The Board would like to be advised, however, when the pending litigation is settled, in order that its records may be complete."

Approved unanimously.

Telegram to Mr. McKinney, President of the Federal Reserve Bank of Dallas, reading as follows:

"In view of information submitted and recommendation contained in your wire of August 24, 1936, the Board defers until February 15, 1937, the effective date of its requirement contained in its letter to the Forney State Bank of Forney, Forney, Texas, of July 20, 1936, that such bank surrender its stock in the Federal Reserve Bank of Dallas and forfeit all rights and privileges of membership in the Federal Reserve System. The effective date of the authority of the Federal Reserve Bank to cancel the Federal Reserve bank stock held by the Forney State Bank of Forney is, of course, also deferred until February 15, 1937. Please advise the Forney State Bank of Forney of the Board's action, in writing, prior to August 29, 1936. Such advice should be forwarded to the Forney State Bank of Forney in the manner suggested in the next to the last paragraph of the Board's letter of July 20, 1936, to Mr. Walsh for the forwarding of the Board's letter of July 20, 1936, to such bank. Please furnish for the Board's records a copy of your advice to the Forney State Bank of Forney. It is also requested that not later than February 1, 1937, the Board be furnished with further recommendations in this matter in the light of the circumstances as they then exist."

Approved unanimously.

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

"An inquiry has been received by the Board from Mr. Kenneth L. Smith, Assistant Secretary of the Chicago Stock Exchange, relating to the interpretation of section 3(g) of Regulation T, a copy of which is inclosed. The following question is involved in Mr. Smith's letter:

"A customer having a restricted account with a broker delivers to the broker transferable 'rights' or warrants to subscribe to 100 new shares of a registered stock at \$30.00 per share, and instructs the broker to exercise them by subscribing to the new shares from the issuer in the customer's behalf. The stock is then selling at \$50.00 a share on the exchange on which it is registered. In determining the amount of additional margin which the broker must demand in connection with the subscription, how should the current market price of the new shares be determined, within the meaning of section 3(g) of Regulation T? It is assumed that each 'right' or warrant represents the privilege of subscribing to one new share, that it has a market value of approximately \$20.00 and that it must be surrendered in order to exercise the privilege.

"Section 3(g) provides in the first paragraph that for the purpose of ascertaining the current market value of a security 'at the time of and in connection with a purchase * * * of such security, the price at which such security is purchased * * * shall be used in computing the current market value of such security.' In the above case the 'price' at which the new stock is purchased includes the amount of cash paid for each share (\$30) plus the current market value of each 'right' or warrant which is surrendered in exchange for such share.

"Accordingly, the broker should, in determining the amount of the additional margin to be demanded, add to the option price of \$30, the current market value of the 'right' or warrant. This should be determined in accordance with the second paragraph of subsection 3(g).

"In case the warrant entitles the holder to purchase more than one share, or a fraction of one share, its current market value must be proportionately adjusted to conform to the 'right' to purchase one share, before it is added to the

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"amount of cash paid for the new share.

"If the subscription involves the withdrawal of the 'rights' or warrants from the customer's account, and the withdrawal reduces the total maximum loan value of the securities in the account, the reduction must, of course, be taken into account in determining the amount of margin demanded.

"It will be appreciated if you will have a representative of your bank discuss Mr. Smith's letter with him in the light of the discussion herein and answer his questions in accordance with this letter."

Approved unanimously.

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

"This refers to your letter dated August 14, 1936 in which you state that, in view of the Board's letter of August 4, 1936 (X-9666) expressing the conclusion that Federal Reserve banks may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks, you assume that Federal Reserve banks may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed national banks.

"It is the view of the Board that the provisions of section 12(B)(n)(1) of the Federal Reserve Act authorize Federal Reserve banks to accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured national banks under the provisions of section 12B(1)(3) of the Federal Reserve Act."

Approved unanimously.

Letter to Dr. J. Westermann Holstign, Director-Secretary, De Nederlandsche Bank N. V., Amsterdam, Netherlands, reading as follows:

"We are in receipt of your letter of July 30 informing us that, because of its confidential nature, it is impossible to supply our library with a copy of the official request to private banks that they refrain from cer-

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"tain types of foreign exchange transactions. We note, however, that you are prepared to consider making a copy available to the Board of Governors for the personal and confidential use of its members. We shall appreciate it if you will send us such a copy with the understanding that your wishes will be respected."

Approved unanimously.

Letter to Mr. Evans, Assistant Vice President of the Federal Reserve Bank of Dallas, reading as follows:

"Reference is made to your letter of August 15, 1936, addressed to Mr. Paulger, in which you state that your supply of examination report forms has been exhausted and ask if there would be any objection to your having printed, for use in your examinations this fall, a moderate supply of forms which would be similar, except for the minor changes mentioned in your letter, to the tentative draft of a revised form of examination report recently forwarded to you by the Board's Division of Examinations for your suggestions and comments.

"In the circumstances the Board will not offer any objection to your proposed plan. On the contrary it would appear that the use of the tentative form for a short time on a small scale would prove a distinct advantage in preparing the final revision of the form. In this connection, however, attention is again called to the fact that the tentative draft which you have has not been considered by Counsel for the Board or submitted to the Board and that, consequently, none of the revisions in the form of report is to be taken as representing the Board's position in the matter or Counsel's opinion as to the legal aspects involved."

Approved unanimously.

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

"Consideration has been given to your letter of August 8, 1936 and to Mr. Drinnen's letter of August 18, 1936, inclosing a copy of an opinion of counsel for your bank regarding the applicability of section 32 of the Banking Act of 1933, as amended, to the proposed services of Mr. Charles

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"W. Welsh as a director of the Provident Trust Company and as a special partner of Robt. Glendinning & Co., both of Philadelphia, Pennsylvania.

"It appears from the information which has been submitted that the aggregate net income of Robt. Glendinning & Co. derived from transactions involving 'the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation of stocks, bonds, or other similar securities' constituted less than 10 per cent of its total net income for the 18 months ending June 30, 1936, the remainder being derived principally from brokerage commissions and interest.

"On the basis of this information, the Board sees no reason to differ from the conclusion reached by Mr. Drinnen and by counsel for your Bank that section 32 does not prohibit the relationships in question. Of course, as suggested by Mr. Drinnen and your counsel, if there should be any material change in the relative volume of the various types of business transacted by Robt. Glendinning & Co., a further question regarding the applicability of section 32 might be presented."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Howell
Secretary.

Approved:

Donald Johnson
Vice Chairman.