

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, September 12, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Davis

Mr. Bethea, 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:

Memorandum dated September 10, 1936, from Mr. Wyatt, General Counsel, recommending that the salary of Miss Mary A. Morgan, a stenographer in his office, be increased to \$1,680 per annum, effective as of October 1, 1936. The memorandum stated that Miss Morgan was originally appointed July 15, 1935, on a temporary basis at a salary of \$1,440 per annum; that her appointment was made permanent on September 28, 1935, with salary at the rate of \$1,560 per annum; and that she has applied herself very diligently, shows great aptitude for the work, and is far above the average in every respect. The memorandum stated further that there was a general question of policy involved in this recommendation which it was felt should be brought to the attention of the Board, i.e., whether the Board desired to consider increases in salary from time to time during the year, or whether it would prefer to consider them (possibly with some exceptions) only at the time it considers the Board's annual budget. The memorandum pointed out that, while the recom-

9/12/36

-2-

mendation had been made to become effective October 1, 1936, Mr. Wyatt believed that it would do no harm to permit the recommended increase to wait until the time the Board considers its annual budget if that was in accordance with the general policy which the Board preferred to pursue.

The recommendation contained in the memorandum was approved unanimously, to become effective as of October 1, 1936.

Memorandum dated September 11, 1936, from Mr. Paulger, Chief of the Division of Examinations, recommending that the appointment of Miss Henrietta Slavens as a temporary stenographer in the Division be extended for a period of one month from September 20, 1936, with no change in her present salary at the rate of \$100 per month.

Approved unanimously.

Telegram to Mr. Sargent, Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"Retel September 8. A newly organized bank is eligible for membership in the System and whether its application should be approved or deferred depends upon the circumstances in each case. Upon occasion Board has approved membership applications of banks being organized, membership to become effective upon opening for business. If a Federal reserve bank feels that there is justification for organization of proposed bank, is satisfied with proposed management, and feels that Board of Governors would be warranted in executing certificate required under section 12B (e), it would seem that bank should not be denied membership simply because it is a newly organized bank. On the other hand, if there are serious reservations as to any of the factors enumerated above, it would seem to be appropriate to discourage member-

9/12/36

-3-

"ship until the bank has been in existence a sufficient time to prove that it merits membership. It is suggested that in the case of an application for membership to become effective upon the opening for business, the views of the Federal Deposit Insurance Corporation supervising examiner as to the situation be obtained."

Approved unanimously, with the understanding that a copy of the telegram would be sent to the Presidents of all Federal reserve banks.

Telegram to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Relet September 8, 1936 Board extends to November 25, 1936 time within which 'Farmers State Bank', Winner, South Dakota may effect withdrawal from System. Please advise the bank accordingly."

Approved unanimously.

Letter to Mr. L. E. Birdzell, General Counsel for the Federal Deposit Insurance Corporation, reading as follows:

"This refers to your letter of June 11, 1936, with reference to the question whether funds of school districts and public libraries may be classified as savings deposits.

"The delay in replying to your inquiry on this subject is due to the fact that the Board of Governors has under reconsideration a number of the rulings which it has heretofore made with respect to the question whether particular types of deposits may be classified as savings deposits and has in view the possibility that it may be desirable to make some modification of the definition of savings deposits contained in the present Regulation Q. In the event that the Board should feel that a change in the definition of savings deposits is desirable, it will, of course, submit to your Corporation for consideration and comment a draft of any proposed modification of the definition.

"Pending the reconsideration of this subject which is now in progress, it does not seem advisable to pass upon

9/12/36

-4-

"questions as to the classification of particular types of deposits as savings deposits, but as soon as a conclusion is reached in this matter consideration will be given to the question whether funds of school districts and public libraries may be classified as savings deposits and you will be promptly advised."

Approved unanimously.

Telegram to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, referring to his telegram of September 11, 1936, inquiring whether a reserve fund set up by State member banks for dividends payable in common stock should be shown under the caption 31(h), Retirement fund for preferred stock or capital notes and debentures, of liabilities on form 105, report of condition of State member banks, and stating that consideration had recently been given to the addition of a sub-item "Reserve for dividend payable in common stock" under item 31 of the call report, and that pending a decision with reference to such change, it was suggested that Mr. Fletcher advise the member banks making such inquiry to report any such reserve against sub-item 31-f, "Undivided profits-net".

Approved unanimously.

Letter to Mr. R. C. Williams, Vice President of the First National Bank, Atlanta, Georgia, reading as follows:

"This refers to your letter of August 27, 1936, to Mr. Ronald Ransom, inquiring whether the Board would consider the investment of trust funds by your bank in securities purchased from its affiliate, Trust Company of Georgia, Atlanta, Georgia, a violation of subsection (a) of section 11 of Regulation F, revised effective June 1, 1936, which

9/12/36

-5-

"reads as follows:

'(a) Obligations of trustee bank or its directors, officers, etc.—Funds received or held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.'

It is understood that Trust Company of Georgia is an affiliate of your bank solely by reason of the fact that the same persons own or control a majority of the shares of stock of each institution.

"The Board is of the opinion that the investment of trust funds by a national bank in securities purchased from an organization which is for any reason an affiliate of such bank, within the meaning of that term as defined by Congress in section 2(b) of the Banking Act of 1933, violates the above quoted provisions of Regulation F and that, therefore, the investment of trust funds by your bank in securities purchased from Trust Company of Georgia is prohibited. As you know, the pertinent provisions of Regulation F are based upon long established principles of law and sound practices relating to the administration of trusts and, while circumstances may reduce the danger of abuses in some instances, the Board has not felt that it could justify making exceptions.

"In this connection, it may be noted that the American Law Institute's Restatement of the Law of Trusts, section 170, comment (i), states:

'* * * A corporate trustee cannot properly purchase for the trust property owned by an affiliated or subsidiary corporation in which it has the entire interest or a controlling interest or an interest of such a substantial nature that there would be a temptation to consider its own advantage in making the sale and not to consider solely the advantage to the beneficiaries of the trust. The rule is the same where the shares of the selling corporation are owned by the shareholders of the corporate trustee. * * *'

(Underscoring supplied)

"It may also be noted that the Statement of Principles of Trust Institutions, adopted by the Trust Division of the American Bankers Association, states:

'It is a fundamental principle that a trustee

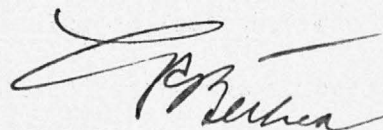
9/12/56

-6-

"should not have any personal financial interest, direct or indirect, in the trust investments, bought for or sold to the trusts of which it is trustee, and that it should not purchase for itself any securities or other property from any of its trusts. Accordingly, it follows that a trust institution should not buy for or sell to its estates or trusts any securities or other property in which it, or its affiliate, has any personal financial interest, and should not purchase for itself, or its affiliate, any securities or other property from its estates or trusts."

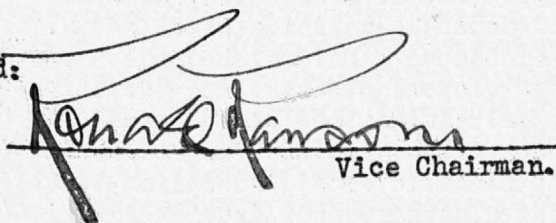
Approved unanimously.

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Vice Chairman.