

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, September 16, 1936, at 10:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, 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:

Telegrams dated September 15, to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, and September 16, 1936, to Mr. Young, President of the Federal Reserve Bank of Boston, and Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, stating that the Board approves the establishment without change by the St. Louis bank on September 15, and by the Boston and Philadelphia banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Reference is made to Mr. Attebery's letter of September 8 requesting the Board's approval of the continuation of the assignment of Mr. A. K. Summers to the position of Clerk and Recorder, Custody Department, Louisville Branch, without reduction in salary, for a further period of six months beginning September 28, 1936.

"In view of the circumstances the Board approves the continuance of the assignment of Mr. Summers to the above

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"mentioned position, without reduction in salary, for a further period of six months as requested in Mr. Attebery's letter."

Approved unanimously.

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

"This refers to your letter of September 1, 1936, relating to the question whether The National Shawmut Bank of Boston and Shawmut Association, both of Boston, Massachusetts, are holding company affiliates of The Merchants National Bank of Salem, Salem, Massachusetts.

"It appears that your inquiry arises in connection with the election of a class A director of the Federal Reserve Bank of Boston by the member banks in Group 2 in your district. It is understood that The Merchants National Bank of Salem and some other bank or banks of which The National Shawmut Bank of Boston and Shawmut Association clearly are holding company affiliates are in Group 2 and that you desire to know whether, in view of the following provisions of section 4 of the Federal Reserve Act, The Merchants National Bank of Salem might vote at such election even though it were not designated for that purpose by The National Shawmut Bank of Boston and Shawmut Association:

'Directors of class A and class B shall be chosen in the following manner:

'The Board of Governors of the Federal Reserve System shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank

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"in the elections of class A and class B directors: Provided, That whenever any two or more member banks within the same Federal reserve district are affiliated with the same holding company affiliate, participation by such member banks in any such nomination or election shall be confined to one of such banks, which may be designated for the purpose by such holding company affiliate."

"The Board understands that, at the time of the preceding election of directors of The Merchants National Bank of Salem, such bank had 20,000 shares of class 'A' preferred stock, 6,000 shares of class 'B' preferred stock and 4,000 shares of common stock outstanding; that all of the class 'A' preferred stock was then owned by the Reconstruction Finance Corporation; that 4,800 shares of the class 'B' preferred stock and 2,188 shares of the common stock were then owned by Shawmut Association and indirectly controlled by The National Shawmut Bank of Boston; and that there has been no change in the foregoing facts since such election of directors.

"The Board further understands that all of the stock owned by the Reconstruction Finance Corporation was voted at the preceding election of directors under a proxy limited to such meeting of shareholders; that such proxy was held by a person not connected with The National Shawmut Bank of Boston or Shawmut Association; and that none of the stock owned or controlled by The National Shawmut Bank of Boston and Shawmut Association was voted at such election of directors.

"On the basis of the above facts, the Board is of the opinion that The National Shawmut Bank of Boston and Shawmut Association are not now holding company affiliates of The Merchants National Bank of Salem. However, if the Reconstruction Finance Corporation should in the future issue a proxy to The National Shawmut Bank of Boston or Shawmut Association, or a person under their control, a further question might then arise concerning the existence of holding company affiliate relationships.

"In view of the foregoing, the Board is of the opinion that The Merchants National Bank of Salem is not now 'affiliated with' The National Shawmut Bank of Boston and Shawmut Association within the meaning of the proviso contained in the above-quoted statutory provisions and, therefore, such proviso is not applicable to it. Accordingly, it has a right to vote at the pending election of a class A director of the

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"Federal Reserve Bank of Boston independently of the designation for that purpose by such organizations and some other bank in Group 2 which is a subsidiary of such organizations may also vote.

"You refer to the fact that general voting permits recently issued to The National Shawmut Bank of Boston and Shawmut Association include The Merchants National Bank of Salem as one of the banks whose stock such organizations are entitled to vote under such permits. In authorizing the issuance of such permits, the Board did not intend to rule on the question whether The National Shawmut Bank of Boston and Shawmut Association were holding company affiliates of such bank. In including such bank, the Board followed a practice pursued in a number of instances where, as a practical matter, it appeared desirable from the standpoint both of the Board and the holding company affiliates to include certain banks in general voting permits although, under circumstances similar to those in this case, it appeared that the banks might not be technically subsidiaries of the holding company affiliates at the time such voting permits were issued. It is contemplated that the permits will authorize The National Shawmut Bank of Boston and Shawmut Association to vote stock of The Merchants National Bank of Salem if, at some future time, they become holding company affiliates of such bank and will eliminate any question as to the right of such organizations to vote the stock of such bank if at any time there should be some doubt as to whether or not holding company affiliate relationships exist."

Approved unanimously.

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

"This refers to your letter of August 25, 1936, relating in part to the question whether certain corporations, all of whose stock is held by Springfield Safe Deposit and Trust Company, Springfield, Massachusetts, in fiduciary capacities, are affiliates of that institution.

"While, in the absence of full information, it is impossible to make a definite ruling, it is not clear that Springfield Safe Deposit and Trust Company may not lawfully vote the stock of such corporations independently of any

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"order or direction of any court, beneficiary, or principal and, accordingly, it appears that such corporations probably are affiliates of that institution. In this connection, attention is called to the ruling appearing at page 303 of the Federal Reserve Bulletin for May, 1934, as well as to the ruling appearing at page 651 of the Federal Reserve Bulletin for October, 1933, mentioned in your letter. If a definite ruling is desired with respect to such corporations, the Board will be glad to give further consideration to the matter upon receipt of detailed information concerning all of the pertinent facts.

"However, as you know, the Board's present waiver of the requirement for reports of affiliates provides in part as follows:

'The Board of Governors of the Federal Reserve System also waives the requirement for the submission of reports of affiliates in all cases where the affiliate relationship is based solely on ownership or control of any voting shares of the affiliate by a member bank as executor, administrator, trustee, receiver, agent, depository, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member banks.'

"Your attention is also called to the fact that section 23A of the Federal Reserve Act, as amended by the Banking Act of 1935, provides in part as follows:

'For the purpose of this section, the term "affiliate" shall include holding-company affiliates as well as other affiliates, and the provisions of this section shall not apply to any affiliate * * * (7) where the affiliate relationship exists by reason of the ownership or control of any voting shares thereof by a member bank as executor, administrator, trustee, receiver, agent, depository, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member bank; * * *.'

Approved unanimously.

There was presented a letter dated September 3, 1936, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York,

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inclosing a copy of a translation of a letter dated August 7, 1936, received from the Banco Central de la Republica Argentina, Buenos Aires, expressing a desire to include arbitrage transactions among the operations which the New York bank has hitherto carried out for its account, together with a copy of Mr. Sproul's reply to the Argentine bank under date of September 2, 1936, stating that "as set forth in our letter of terms and conditions addressed to you under date of October 5, 1935, we will gladly execute, upon your instructions and as your agent, orders to buy and sell foreign exchange for your account without compensation for our own services". Attached to this correspondence was a memorandum dated September 14, 1936, prepared by Mr. Dreibelbis, Assistant General Counsel, in which he reviewed the facts of the case and concluded that, inasmuch as the Board had already expressly approved the establishment of an account upon the books of the New York bank with the Argentine bank upon terms which would include the purchase and sale of foreign exchange by the New York bank as agent for the Argentine bank, and inasmuch as the correspondence between the New York bank and the Argentine bank did not in any way alter the original contract, but was merely explanatory of the details incident to such transactions, the communication dated September 2, 1936, from the New York bank to the Argentine bank was one in the ordinary course of business in connection with transactions pursuant to agreements previously approved by the Board within the scope of the applicable provision of the Board's Regulation

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N, and that, by virtue of such regulation, the sending of such communication did not require the prior permission of the Board. The memorandum stated further that an acknowledgment of Mr. Sproul's letter of September 3, 1936, and inclosures, was adequate in the instant case and that, accordingly, a letter of acknowledgment had been prepared and was submitted with the memorandum for use if the Board desired.

Counsel's opinion and the proposed letter of acknowledgment referred to therein were approved unanimously.

Letter to Mr. Allan Sproul, First Vice President of the Federal Reserve Bank of New York, reading as follows:

"This will acknowledge receipt of your letter of September 9, 1936, inclosing, for the information of the Board, copies of letters addressed to the Banco Central de Reserva de El Salvador under date of September 8, 1936, concerning the opening and maintaining of an account in its name upon the books of your bank and the granting to it of a loan on gold.

"In accordance with the last paragraph of your letter, the Board will appreciate copies of any replies to the aforesaid letters when the same have been received."

Approved unanimously.

Thereupon the meeting adjourned.

Walter Morrie
Secretary.

Approved:

James F. Johnson
Vice Chairman.