

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, October 19, 1936, at 11:00 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. McKee
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 October 16, 1936, were approved unanimously.

Telegram to Mr. Powell, Secretary of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Memorandum dated October 14, 1936, from Mr. Wyatt, General Counsel, submitting the resignation of Mr. Frederic P. Benedict as Assistant Counsel in the Legal Division, and recommending that the Board accept the resignation effective at the close of business on October

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15, 1936.

Accepted with regret.

Memorandum dated October 16, 1936, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that the temporary appointment of Miss Alice Swindlehurst, a comptometer operator in the Division of Bank Operations, be extended for a period of three months beginning October 27, 1936, and that she be transferred to the Division of Research and Statistics, at her present salary at the rate of \$120 per month.

Approved unanimously.

Letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to Mr. Coe's letter of October 13 requesting approval of the continuation for a period of six months from October 16, 1936, of the temporary assignment of Mr. John Snyder to a position of Sorting and Listing Clerk on Work Relief Checks in the Government Check Section of the Collection Department, at a salary of \$1620 per annum.

"In view of the circumstances outlined in Mr. Coe's letter, the Board approves the continuance of the assignment of Mr. Snyder to the above mentioned position for a further period of six months ending April 16, 1937."

Approved unanimously.

Telegram to Mr. Parker, Assistant Federal Reserve Agent at the Federal Reserve Bank of St. Louis, reading as follows:

"Referring to your October 9 letter, Board approves appointment of Edward A. Zehner as Alternate Assistant Federal

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"Reserve Agent at your bank at his present salary of \$1680 per annum with the understanding that Mr. Zehner will remain upon the Agent's payroll and will be solely responsible to him or, during a vacancy in the office of Agent, to the Board of Governors for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may be detailed by the Agent, or, during a vacancy in the office of Agent, by the Assistant Agent, with approval of President, to perform such work for Federal Reserve bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent. Mr. Zehner should execute usual oath of office and surety bond in the amount of \$50,000 as Alternate Assistant Federal Reserve Agent. Please forward such oath and bond to Board but, before doing so, your counsel should be satisfied that the bond complies with rules printed on reverse side of bond form 182. Mr. Zehner should not enter upon the performance of his duties as Alternate Assistant Federal Reserve Agent until you have received advice of Board's approval of his bond. Board approves bonds executed on October 8, 1936, by you and Wm. J. Hagedorn, Jr. as Assistant Federal Reserve Agent and Alternate Assistant Federal Reserve Agent, respectively."

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 October 10 requesting the Board's approval of the continuation for a period of six months from November 5, 1936, of the temporary assignment of Mr. Saunders Reinhard to the position of clerk in the Transit Department, at an annual salary of \$900, which is \$120 in excess of the salary range provided for that position.

"The Board approves the continuance of the assignment of Mr. Reinhard to the above mentioned position, without reduction in salary, for a further period of six months ending May 5, 1937."

Approved unanimously.

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

"This refers to your letter of May 19, 1936, and subsequent correspondence, with regard to the indebtedness of Mr. M. A. Jones and Mr. A. R. Szevery, employees of the Los Angeles Branch of your bank approved as assistant examiners, and to the indebtedness of Mr. W. D. Shortt, a regular assistant examiner, to member banks. You have requested advice as to whether the provisions of section 22(a) of the Federal Reserve Act are applicable to such transactions.

"The Board understands that Mr. Jones became indebted to the Security-First National Bank, Los Angeles, California, approximately one year prior to the time he commenced work in the Examination Department of the Los Angeles Branch of your bank and that the indebtedness of assistant examiner Shortt to the Bank of America N. T. & S. A. was incurred more than four years prior to his appointment as assistant examiner and that these loans have not been renewed or extended since they were originally made. In the case of the indebtedness of Mr. Szevery, it appears that his note given to May Company covering the purchase price of a refrigerator was discounted by such company with the Union Bank & Trust Company, Los Angeles, California, and that Mr. Szevery had no direct negotiations with the bank. It is also understood that Mr. Jones and Mr. Szevery do not hold commissions as assistant examiners and have no authority to examine member banks, that they have never assisted in the examination of the banks to which they are indebted, and that they will not be used in the examination of such banks while indebted to such banks. In view of these facts and other facts and circumstances set forth in your letters pertaining to this matter, the Board is not reporting these transactions to the Attorney General and it will not be necessary for you to report them to the local United States Attorney.

"Attention is invited, however, to the Board's letters of April 29, 1933 (X-7425), October 14, 1933 (X-7638) and December 20, 1934 (X-9052) with regard to indebtedness of officers and employees of Federal reserve banks, and you are requested to have Mr. Jones, Mr. Szevery and Mr. Shortt elim-

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"inate their indebtedness to banking institutions as soon as practicable."

Approved unanimously.

Letter to Mr. W. G. Loeffler, Fiscal Agent of the Federal Deposit Insurance Corporation, reading as follows:

"Receipt is acknowledged of your letter dated October 5, 1936, with respect to the failure of the Williams Savings Bank, Williams, Iowa to submit a correct certified statement for reporting its average daily deposit liabilities for the six-month period ending June 30, 1936, and requesting the cooperation of the Board in securing a correction of the bank's failure to submit the required statement.

"It is understood, of course, that your letter is not intended as a statement upon the basis of which the Board should proceed in the manner contemplated by the provisions of section 12B(i)(1) of the Federal Reserve Act, and a copy of your letter has been forwarded to the President of the Federal Reserve Bank of Chicago with the request that the reason for the failure of the Williams Savings Bank to submit the required statement be ascertained and that the Chicago bank use its best efforts to bring the matter to a satisfactory conclusion.

"The Board will be pleased to keep your corporation advised as to any information which may be received regarding developments in the situation."

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

"Inclosed is a copy of a letter dated October 5, 1936, from Mr. Loeffler, Fiscal Agent of the Federal Deposit Insurance Corporation, advising that the Williams Savings Bank, Williams, Iowa, had failed to submit a correct certified statement for reporting its average daily deposit liabilities for the six-month period ending June 30, 1936, and requesting assistance in obtaining the submission of the required statement. It will be appreciated, therefore,

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"if your bank will get in touch with the Williams Savings Bank immediately and use its best efforts to obtain the submission of the statement required by law. Please advise the Board as to the reason for the bank's failure to submit the statement and keep the Board advised as to developments in the matter."

Letter to Mr. J. F. T. O'Connor, Comptroller of the Currency,

reading as follows:

"This refers to Mr. Lyons' letter of October 5, 1936, inclosing a copy of a letter of September 17, 1936, from The Charleston National Bank, Charleston, West Virginia, involving an interpretation of subsection (a) of section 11 of Regulation F and the last sentence of footnote numbered 10 appended thereto.

"As you know, subsection (a) of section 11 reads as follows:

'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.'

"The last sentence of footnote numbered 10 reads as follows:

'This requirement shall not be deemed to prohibit investments which are expressly required by the instrument creating the trust or by court order.'

"It appears that The Charleston National Bank is trustee under a trust instrument containing the following provisions:

'* * * and it (the Trustee) shall not be restricted to a class of investments which a Trustee is or may hereafter be permitted by law to make, but it shall use its discretion and endeavor at all times to preserve the corpus of this trust estate and endeavor to realize as large an income as may be consistent with prudent and safe management.'

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"The bank states that it contemplates making a loan of funds of such trust to another trust which is being administered by an individual who is a director of the bank. It also states that there is a West Virginia statute under which a fiduciary may, by petition, apply to the Circuit Court for instructions and advice as to the character of investments. The bank inquires whether the prohibition contained in Regulation F would apply to the loan in view of the above quoted language of the trust instrument and whether instructions by the Circuit Court under the statute referred to above would remove any question concerning the propriety of the loan.

"The Board is of the opinion that the above quoted provisions of the trust instrument clearly do not require the bank to make the proposed loan and that the loan is prohibited by Regulation F unless it is required by court order. The Board does not have before it the provision of the West Virginia law mentioned above and is not informed as to the exact nature of the order which the Circuit Court may make pursuant thereto. However, if an order is obtained from a court of proper jurisdiction instructing the bank as trustee to make the specific loan under consideration, the Board is of the opinion that the loan will be an investment required by court order within the meaning of Regulation F and, therefore, will not be prohibited."

Approved unanimously.

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

"This refers to your letter of October 2, in which you submit a number of recommendations for the consideration of the Board with respect to the present method of reporting functional expenses by the several Federal Reserve banks.

"Those at the Board who are particularly interested in the functional expense accounting system have carefully studied your letter and appreciate very much the constructive way in which you have approached the problem, and particularly appreciate the worthwhile suggestions you have made with respect to changes in the functional expense accounting system. They feel that all of the changes

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"you suggest have merit. As you know, Mr. Myrick and Mr. Porter of the Board's staff have been visiting Federal Reserve banks for the past few months for the purpose of checking up on the functional expense allocations, and it is hoped that they will have visited all Federal Reserve banks some time early next year. During their visits they are giving special consideration to the possibility of simplifying the functional expense report and are making notes of the suggestions offered by officials of the banks visited. After they have visited all the banks the suggestions they have accumulated will be carefully studied with the view of bringing about as great a simplification as can be achieved in the functional expense report without sacrificing too much of its value. Before conclusions are reached any proposed changes will, of course, be taken up with the Federal Reserve banks. The functional expense accounting system is, as you know, much more complicated now than it was last year due to the necessity of instituting a rather detailed accounting system for the purpose of arriving at the cost of handling work for the United States Treasury and other Governmental agencies. It is quite possible that it may be feasible to bring about some simplification in this respect after we have had some experience under the plan worked out by Messrs. Lysen, Mangels, Hays and Myrick during the early part of this year.

"It is realized that full uniformity in the preparation of functional expense reports has not been achieved, but in many instances banks whose costs, as shown by the functional expense reports, appeared to be materially out of line have upon investigation found it practicable to make certain changes in their procedure which has resulted in greater economy without sacrificing efficiency. In this connection the Board notes that following Mr. Lysen's visit to the Federal Reserve banks of Kansas City, St. Louis and Dallas to ascertain in detail the reasons for the differences in costs for handling similar operations at your bank and the banks visited, you have adopted a number of changes in your organization which should result in more efficient operation and savings in expense."

Approved unanimously.

Letter to Mr. Strater, Vice President of the Federal Reserve Bank

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of Cleveland, reading as follows:

"Reference is made to your letter of October 3, 1936, transmitting detailed reports of the activities of the Bank and Public Relations Department of the Federal Reserve Bank of Cleveland for the month of September, 1936. The Board has noted the thoroughness with which the information gathered is recorded which it is assumed is useful in the form submitted for purposes of reference on the part of the bank. However, in writing its letter of August 25, 1936 (X-9680), the Board assumed that, aside from any detailed individual report on each bank visited that the Federal reserve bank might find desirable for its own purposes, the bank's officers and other representatives would customarily make narrative resumes of the information gathered during their trips, as had been noted in the case of the Federal reserve bank referred to in the first paragraph of that letter, and it was the thought of the Board that it would be helpful to it if it could have copies of such summary reports. As stated in the full paragraph in the middle of the second page of its letter of August 25, it was thought that these reports would include special reference to criticisms and comments, favorable or unfavorable, with respect to the Federal reserve banks or the Board of Governors; the attitude of member and nonmember banks toward membership and the System generally; reasons given by nonmember banks for not joining the System; and any suggestions which would be of interest to the Board or which would tend to improve the System or its relations with the banks and the public; and that these reports would be accompanied by reports of suggestions or criticisms of a substantial nature made by bankers or others during visits made to the Federal reserve banks. As also stated in that letter, these reports need not follow any set form, but it is felt by the Board that such information will be helpful in giving it a general picture of the attitude and views of bankers throughout the United States concerning the System.

"The Board will appreciate it if this procedure can be followed without sending to the Board the individual report on each bank in the form as submitted with your letter of October 3."

Approved unanimously.

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Letter dated October 17, 1936, to Mr. Guy T. Helvering, Commissioner of Internal Revenue, Washington, D. C., reading as follows:

"This refers to a letter of October 9, 1936, addressed to one of the Board's Assistant Counsel by Mr. Herman C. Biegel, of the office of the Assistant General Counsel for the Bureau of Internal Revenue, concerning your proposed regulation relating to the credit provided in section 26(d) of the Revenue Act of 1936 in the case of holding company affiliates and inclosing a tentative draft of such regulation for consideration. This matter has heretofore been discussed informally by representatives of the Bureau of Internal Revenue and the Board's staff, certain suggestions being made by the Board's staff with respect to a previous draft of the proposed regulation. While it has not been expressly requested, it is understood that a formal expression of the Board's views with respect to the present draft of the proposed regulation is desired and, accordingly, the Board's comments and suggestions are set forth herein.

"The proposed regulation states that the credit provided in section 26(d) is allowed to a holding company affiliate which 'has been granted a voting permit by the Board of Governors of the Federal Reserve System'. The basis for this provision is, of course, that the provisions of section 5144 of the Revised Statutes, relating to readily marketable assets which must be possessed, acquired and/or maintained by holding company affiliates, prescribe such requirements as a condition to the granting of a voting permit and that a holding company affiliate could not be deemed to have acquired such assets in compliance with section 5144 unless it had been granted a voting permit. In this connection, it also may be stated that the legislative history of section 26(d) of the Revenue Act of 1936 clearly indicates that Congress contemplated that the provisions of such section would be applicable only to holding company affiliates which hold voting permits issued by the Board.

"However, it must be pointed out that the Board grants two classes of voting permits: limited voting permits and general voting permits. Section 1 of the Board's Regulation P, 'Holding Company Affiliates - Voting Permits', revised effective January 1, 1936, defines such terms as follows:

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"(g) General voting permit. -- The term "general voting permit" means any voting permit entitling a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank at all meetings of the shareholders of such bank and for all purposes.

"(h) Limited voting permit. -- The term "limited voting permit" means any voting permit authorizing a holding company affiliate to vote the stock which it owns or controls of a subsidiary member bank only at a designated meeting or meetings of the shareholders of such bank or at a meeting or meetings held within a designated period of time and for only such purposes as are stated in the permit.'

"As is apparent from the definition, a limited voting permit is of a temporary nature. Such a permit has a definite expiration date, ordinarily some three or four months after the date of the issuance of the permit. Although a holding company affiliate has been granted a limited voting permit, it cannot be compelled to accept further limited voting permits or a general voting permit, and in a number of instances holding company affiliates which have been granted limited voting permits from time to time have declined to accept general permits when they were authorized by the Board. Under the provisions of section 5144 a holding company affiliate is required to possess and continue to possess the prescribed reserves only during the life of a permit and, in any event, is not required by the law to possess such reserves until the termination of five years after the enactment of the Banking Act of 1933 on June 16, 1933. Accordingly, a holding company affiliate which has been granted only a limited voting permit may never be required to possess the prescribed reserves.

"In the circumstances, it would not appear to be in accordance with the purposes of the provisions of section 26(d) of the Revenue Act of 1936 to permit a holding company affiliate to take advantage of the credit allowed by section 26(d) merely upon the basis of a limited voting permit which is issued for a temporary period. While it is realized that certain arguments might be made in favor of allowing holding company affiliates which are granted only limited voting permits the credit authorized by section 26(d), the

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"Board feels that at least for the purposes of your proposed regulation a holding company affiliate should not be deemed to have acquired readily marketable assets other than bank stock in compliance with the provisions of section 5144 unless such holding company affiliate holds a general voting permit. Accordingly, it is suggested that paragraph numbered 1 of the proposed regulation should be revised to read as follows:

'(1) to a holding company affiliate of a bank, as defined in section 2 of the Banking Act of 1933, which holding company affiliate holds, at the end of the taxable year, a general voting permit granted by the Board of Governors of the Federal Reserve System.'

"If any limited voting permit should be issued or be in effect after June 16, 1938, when holding company affiliates holding voting permits are required to possess the prescribed reserves, it is possible that further consideration will have to be given to the question whether holding company affiliates would be entitled to the credit allowed under section 26(d) on the basis of such a limited permit. Therefore, the Board would like to have an opportunity to give further consideration at the appropriate time to any provisions of your regulation relating to this matter which it is proposed will be in effect after June 16, 1938.

"The Board has noted from Mr. Biegel's letter of October 9 that in the tentative redraft of the regulation language has been used which in the opinion of your Bureau is sufficiently flexible to permit of interpretive rulings at a later date, if and when the necessity therefor arises, on the question discussed by the staffs of the Board and your Bureau regarding the effect of the limitation contained in the first sentence following paragraph numbered 3 of the proposed regulation. Therefore, the Board is not at this time offering any suggestions regarding the language of such provision.

"It is noted that the proposed regulation refers to the amount of 'earnings' devoted by the holding company affiliate to the acquisition of readily marketable assets other than bank stock; whereas section 26(d) of the Revenue Act of 1936 refers to 'earnings or profits' devoted to such purposes. In his letter, Mr. Biegel states that, as used

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"in revenue acts, the term 'earnings or profits' has a fairly well defined meaning, different from that given to the term 'net income', and that, under such a definition of the term, a holding company affiliate might obtain a double deduction, which he suggests may or may not be warranted. He states that 'since it is thought unnecessary to resolve this conflict at the present time, the regulations on this point have been geared in the terms of "earnings" which is the statutory language of section 5144'. However, the use of the term 'earnings' in certain provisions of section 5144 of the Revised Statutes apparently does not limit or otherwise affect the meaning of the term 'earnings or profits' as used in section 26(d) of the Revenue Act of 1936 or the amount of the credit allowed thereunder. While the Board recognizes the difficulties arising out of the use of the term 'earnings or profits' in section 26(d), it would appear that the use of the term 'earnings' in the regulation would likewise be confusing. Accordingly, the Board suggests that the regulation refer to 'earnings or profits', the language of the statute upon which the regulation is based, instead of the word 'earnings'. It is understood from informal conversations held with Mr. Biegel subsequent to the receipt of his letter that this suggestion is in accordance with the views now held by him.

"The provisions of the proposed regulation relating to the procedure in connection with claims for credits by holding company affiliates and certifications by the Board appear to be in substantial accordance with the procedure suggested by the Board's staff. However, on the basis of informal conversations which have been held with Mr. Biegel subsequent to the receipt of his letter, it is suggested, as a matter of clarification and simplification of procedure, that the last paragraph of the draft of the proposed regulation inclosed with Mr. Biegel's letter be revised to read as follows:

'Every taxpayer claiming and making a deduction for the credit provided for in section 26(d) shall attach to its return a supplementary statement, in duplicate, setting forth all the facts and information upon which the claim is predicated, including such facts and information as the Board

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"of Governors of the Federal Reserve System may prescribe as necessary to enable it, upon the request of the Commissioner subsequent to the filing of the return, to certify to the Commissioner the amount of earnings devoted to the acquisition of such readily marketable assets. A certified copy of such supplementary statement shall be forwarded by the taxpayer to the Board of Governors at the time of the filing of the return. The holding company affiliate shall also furnish the Board of Governors such further information as the Board shall require. For the requirements with respect to the amount of such readily marketable assets which must be acquired and maintained by a holding company affiliate to which a voting permit has been granted, see subsections (b) and (c) of section 5144 of the Revised Statutes, at paragraph 56 of the Appendix.'

"The Board is glad to have had an opportunity to consider the proposed regulation and appreciates the cooperation which it has received in connection with this matter. If there is any further assistance which the Board can render in connection with the proposed regulation, it will be pleased to do so upon request. The Board will appreciate advice when the regulation is finally promulgated by your bureau in order that arrangements may be made to obtain an appropriate number of copies for distribution to the Federal Reserve banks in order that they may be available in connection with any inquiries received from holding company affiliates."

Approved unanimously.

Letter to Mr. Helm, Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Referring to your letter of October 14 and the Board's letter of October 9, 1936 (X-9714), the Board has no objection to the discontinuance by the Federal reserve banks and their branches of the practice of forwarding by mail confirmations of telegrams sent by them."

Approved unanimously.

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Meeting of the Board of Directors of the Federal Reserve System held in Washington on Tuesday, October 19, 1936, at 10:30 a. m.

Thereupon the meeting adjourned.

Mr. Boardman
Mr. Egan
Mr. Glavin
Mr. Harbo

Mr. Clegg
Mr. Coffey
Mr. Glavin
Mr. Ladd
Mr. Nichols
Mr. Rosen
Mr. Tracy

Robert Morice
Secretary.

Approved:

W. S. B. [Signature]
Chairman.