A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 30, 1936, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Paulger, Chief of the Division of Examinations

There was presented a draft of a reply to a letter received under date of August 31, 1936, from Vice President Wood of the Federal Reserve Bank of St. Louis with respect to the question whether Mr. Oscar Schalk, Comptroller of the Mercantile-Commerce Bank and Trust Company of St. Louis, is an executive officer of that bank within the meaning of section 22(g) of the Federal Reserve Act and the Board's Regulation O. The draft of reply stated that, without attempting to express an opinion on the question whether persons having the title of Comptroller in other member banks should be considered to be executive officers, the Board had reached the conclusion, on the basis of the information presented and for the reasons stated in the letter, that Mr. Schalk was an executive officer within the meaning of the regulation and section 22(g). The draft of reply and an opinion prepared by Mr. Vest, Assistant General Counsel, under date of October 2, 1936, regarding the matter had been circulated among the members of the Board and Mr. McKee had requested that it be discussed at a meeting.
of the Board for the reason that he felt that Mr. Schalk was not an executive officer within the meaning of section 22(g) and that to hold to the contrary would not accomplish any of the results sought by that provision of the law. During the ensuing discussion reference was made to the careful consideration which had been given by the Board to the definition of the term "executive officer" when Regulation O was being prepared and Mr. Paulger reviewed briefly some of the questions in connection with the administration of the regulation which had been discussed at the recent conference of examiners of the Federal reserve banks, particularly in cases where the officer of the bank is inactive.

At the conclusion of a discussion, Mr. McKee moved that the Board rule that, on the basis of the facts in this particular case, Mr. Schalk is not an executive officer of the Mercantile-Commerce Bank and Trust Company, within the meaning of Regulation O, and that counsel be requested to prepare a letter to Mr. Wood for the Secretary's signature advising accordingly.

Carried, Mr. Ransom voting "no".

Mr. Morrill presented a letter just received from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, acknowledging receipt of the Board's letter of October 27, 1936, and stating that the Council would like to discuss at its meeting the problem of the competition of government lending agencies in the farming sections of several of the western states.

It was understood that, should the members of the Council so desire, Mr. Davis would be prepared to discuss with them the matter referred to and would arrange to invite Mr. W. I. Myers, Governor of the Farm Credit Administration, to meet with the Council should that appear to be desirable.
There was presented the application of the "Corn Exchange Savings Bank", Sioux Falls, South Dakota, for membership in the Federal Reserve System and for stock in the Federal Reserve Bank of Minneapolis. The application had been submitted to the Board by the Division of Examinations with a memorandum dated October 21, 1956, which recommended that the application be approved subject to the conditions hereinafter set forth and stated that the principal criticism in connection with the application was whether the management was indulging in unsafe and unsound business practices inasmuch as the president had made a loan to the managing officer of another bank for the purpose of furnishing funds to cover a shortage of the managing officer in the second bank. The application had been discussed with Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, when he was in Washington attending the conference of examiners and Mr. Swanson had stated that President Peyton was thoroughly familiar with the facts involved and that his recommendation that the application be approved subject to the conditions recommended by him had been made without reservation.

Upon motion by Mr. McKee, a letter to the board of directors of the Corn Exchange Savings Bank, Sioux Falls, South Dakota, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special conditions, the Board approved the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Minneapolis, was approved unanimously:

"7. Such bank shall make adequate provision for depreciation in its furniture and fixtures."
"8. As soon as practicable, such bank shall dispose of any loans which may be secured in whole or in part by its own stock, or obtain the substitution of other adequate security for each such loan.

"9. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of $40,685, as shown in the report of examination of such bank as of July 20, 1936, made by an examiner for the Federal Reserve Bank of Minneapolis."

Unanimous approval was also given to a letter to President Peyton of the Federal Reserve Bank of Minneapolis, reading as follows:

"The Board of Governors of the Federal Reserve System approves the application of the 'Corn Exchange Savings Bank', Sioux Falls, South Dakota, 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 Superintendent of Banks for the State of South Dakota for his information.

"The Board has noted your recommendation that the bank be required, as a condition of membership, to make an annual charge-off of 10% of the book value of its other real estate. Other real estate is an undesirable asset for a commercial banking institution and should be disposed of as soon as practicable. The Board feels, therefore, that a continuing condition should not be prescribed which might convey the impression that the bank would be allowed to carry the properties until eliminated from its assets by the annual charge-offs, especially since it is assumed that each portion will, after the charge-off of the portion classified in the current report as estimated losses, have an estimated value at least equal to its carrying value. However, it is suggested that in your discussions with the bank you point out to the management the advisability of disposing of the properties as soon as it is feasible to do so and of carrying them at conservative values until sold.

"In view of the small amount involved and the generally satisfactory condition of the bank's assets, as reflected by the report of examination made by your examiners as of July 20, 1936, the condition of membership recommended that the bank establish a reserve for one-half of the doubtful assets shown in such report has not been prescribed."
"It will be noted that, contrary to usual practice, the estimated losses to be charged off as a condition of membership include $6,500 on account of depreciation in bonds, although total depreciation in the account amounted to only $2,400. According to the report of examination, however, the $6,500 was an admitted and established loss in one issue inasmuch as the bank had agreed to accept $7,500 for certain defaulted bonds carried at $14,000. In the circumstances it is considered appropriate that the amount of such depreciation be included in the estimated losses to be eliminated.

"It has been noted that it has been the practice of the bank to carry bonds at par and to charge or credit to the reserve account premiums and discounts on bonds purchased, and it is understood that the bank agreed to correct this practice. In this connection, however, it has been noted that in the report of examination (page 21) the statement was made that bonds should be booked at cost or par, whichever is lower. It is assumed, of course, that it was made clear to the bank that bonds purchased at a premium can be entered on the books at cost. Proper provision, of course, should thereafter be made in accordance with the Comptroller's regulations and sound banking practice for the amortization of the premium.

"The report of examination as of July 20, 1936, indicates that the bank has pledged non-legal securities with the State Treasurer for the purpose of securing fiduciary activities and that there is no designated trust committee. It has been noted also that your trust examiner recommends that the trust department be eliminated, but that the management of the bank feels that for competitive reasons its trust powers should be retained. It is assumed that you will satisfy yourself that the assets pledged on account of fiduciary activities will be brought into conformity with State laws and that appropriate steps will be taken to insure that proper attention is given to the fiduciary activities of the bank, even though the volume of such business is small."

In connection with the above matter, Mr. McKee raised the question whether it is a sound policy for the Board to approve an application for membership subject to a condition that the applicant bank will agree to take action to correct objectionable matters. It was the consensus of the members present that, while immediate corrections should be ob-
tained whenever possible, there are cases where correction before admission to membership may not be feasible and that therefore the question was one as to which no uniform policy could be prescribed, but that it would be necessary to consider in each case the extent to which corrections should be obtained in advance or left to be obtained after admission to membership.

Mr. Davis left the meeting at this point.

Mr. McKee referred to the provision in the Revenue Act of 1936 which in effect grants a credit in the computation of income taxes to a holding company affiliate, which on December 31 of the taxable year holds a general voting permit, in the amount of the earnings devoted by such affiliate during the taxable year to the acquisition of readily marketable assets in compliance with section 5144 of the Revised Statutes, and stated that there is a possibility that when the holding company affiliates to which general voting permits have not yet been issued learn of this exemption they will desire to obtain such permits from the Board. In these circumstances, Mr. McKee said, the question was presented whether the Board should bring the provisions of the law and the regulations of the Bureau of Internal Revenue with respect thereto to the attention of such holding company affiliates so that if they desire a general voting permit the matter may be taken up promptly in order that, if possible, the necessary information may be developed so that action can be taken by the Board before the end of the year. Mr. Wyatt stated that the revised regulations of the Bureau of Internal Revenue have not been released but are on the press and that the provisions of the regu-
lations relating to the exemption referred to above have been approved by the Commissioner.

Counsel was requested to obtain from the Bureau of Internal Revenue, if possible, a copy of the applicable provisions of the Bureau's regulations and to prepare a letter to the Federal reserve banks transmitting the provisions and requesting that they be brought to the attention of all holding company affiliates in their respective districts to which general voting permits have not yet been issued; it being understood that the letter will be sent as soon as the regulations are released by the Bureau of Internal Revenue.

There was also a discussion of the question whether the Board should make any changes in the provisions of the standard agreement required to be executed by holding company affiliates prior to the issuance of general voting permits and it was agreed that, should information be presented to the Board which would justify such action, the Board would reconsider the provisions of the agreement.

At this point Messrs. Thurston, Wyatt, Goldenweiser and Paulger left the meeting and consideration was then 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 29, 1936, were approved unanimously.

Telegram to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, stating that the Board approves the establishment without change by the New York bank on October 29, 1936, and by the Cleveland and Chicago banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.
Telegram to Mr. Gidney, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York, reading as follows:

"Retel October 30 Board accepts resignations, effective as at close of business October 30, 1936, of Gidney, Dillistin, and Roelse as Assistant Federal reserve agents at the Federal Reserve Bank of New York. It is noted that such resignations are being forwarded to the Board today by mail. Board authorizes transfer of nonstatutory functions of Federal reserve agent to bank effective October 30, 1936."

Approved unanimously.

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

"Reference is made to your letters of October 7, 1936, transmitting a copy of a resolution adopted on October 1 by the directors of 'Bank of Hartsville', Hartsville, Tennessee, in connection with its desire to withdraw from membership in the Federal Reserve System, and October 19, 1936, including a copy of a letter dated October 17, 1936, from the president of the bank requesting that the bank's notice of intention to withdraw from membership be cancelled.

"In accordance with the request of the president of the bank, the Board will take no action in connection with the notice of the directors of the Bank of Hartsville of intention to withdraw from the System. As you know, section 10(d) of the Board's Regulation H contemplates that the notice rescinding the former notice of a State member bank of its intention to withdraw from membership should be accompanied by a certified copy of an appropriate resolution adopted by the board of directors of the bank. While you have not forwarded a certified copy of such a resolution in the case of the Bank of Hartsville, the Board, in view of the circumstances involved, will not require the submission of such a document in this case if it has not already been filed with you."

Approved unanimously.

Memorandum dated October 8, 1936, from Mr. Szymczak submitting, pursuant to the understanding reached at the meeting of the Board on
April 28, 1956, a statement on the participation in and support of activities of the American Institute of Banking by the Federal Reserve System. The memorandum suggested that if the Board concurs in the views expressed in the statement (which had been carefully considered by members of the Board's staff and by Mr. Szymczak following receipt of recommendations from Mr. M. W. E. Park, former President of the American Institute of Banking, and Assistant Cashier of the Federal Reserve Bank of Kansas City) it be transmitted to the Chairman of the Presidents' Conference with a letter suggesting that it be considered at the next meeting of the Conference and stating that in view of the desirability of having uniformity throughout the System so far as it is feasible to do so, the Board would like to have the views of the Conference relative to the problem.

Approved unanimously.

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

"In your letter of October 21 with respect to reports of the activities of the bank and public relations department of the Federal Reserve Bank of Cleveland, you asked for an expression of the Board's opinion as to whether it is desirable to make a deliberate and studied effort to obtain from both member and nonmember banks expressions of their attitude toward the System.

"According to your letter it has been your general practice in talking with member and nonmember bankers to allow such criticism of the System as they express to develop naturally in the course of conversation. This appears to the Board to be a good method of eliciting opinions, provided the bankers understand that frank expressions of their views regarding the System will be cordially received and that only in that way can misunderstandings be cleared up, policies explained, and services improved. It is believed that bankers can be made to realize from the attitude of Reserve bank officers and representatives that comment upon the System's activities is desired,
"and particularly that constructive criticism is always welcomed. It is, of course, not the desire of the Board that individual statements of opinion be quoted in the monthly summaries, except as you feel that they are of unusual interest or illustrative value in connection with your description of the general attitude evinced by bankers toward the System."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

Chairman.

Secretary.