

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 4, 1936, at 12:15 p. 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 meetings of the Board of Governors of the Federal Reserve System held on October 30 (2 meetings) and November 2, 1936, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on October 31 and November 3, 1936, were approved and the actions recorded therein were ratified unanimously.

Telegrams to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, Mr. Leach, President of the Federal Reserve Bank of Richmond, and Mr. Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the respective banks today of the

11/4/36

-2-

rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Inclosed herewith for your attention is a copy of a letter dated October 8, 1936, from the president of the Citizens Mutual Trust Company, Wheeling, West Virginia, with regard to stocks carried in its investment account in apparent violation of condition of membership numbered 7. Receipt of the letter has not been acknowledged to the trust company.

"Under the provisions of the Board's letter of April 2, 1935, X-9169, the Federal reserve agents were authorized in their discretion to extend on the Board's behalf for specified periods the time within which banks subject to condition of membership numbered 7 shall dispose of stock acquired in connection with debts previously contracted in good faith. In view of the transfer of the nonstatutory duties of the Federal reserve agents to the Federal reserve banks, the authority granted in the Board's letter X-9169 is transferred to the presidents of the Federal reserve banks."

Approved unanimously.

Letter to the Securities and Exchange Commission, reading as follows:

"This refers to the letter dated October 23, 1936, which Mr. David Saperstein, Director of your Trading and Exchange Division, addressed to Mr. Carl E. Parry, Chief of the Board's Division of Security Loans, regarding the question whether certain transactions involve 'arranging' for the extension of credit within the meaning of certain provisions of the Securities Exchange Act of 1934.

"It is understood that Arnold & Company, a New York Stock Exchange member firm, solicits accounts, accepts them, and executes the orders, but that under an arrangement with Prentice, Blauer & Brady, also a

11/4/36

-3-

"member firm, the latter firm carries the accounts, accepting delivery of securities and doing the necessary financing. Arnold & Company executed in this manner for one of its customers an ordinary margin purchase of common stock of the Pierce Governor Company. This stock was part of a new issue of which Arnold & Company had acted as one of the underwriters, the registration statement having been filed on March 30, 1936.

"The interest of the Commission lies in the question whether Arnold & Company has violated section 11(d)(1) of the Securities Exchange Act of 1934, but this question depends in part upon the question whether Arnold & Company has arranged for the extension of credit on the securities involved. Since the term 'arrange for the extension of credit' appears at several places in section 7 of the Securities Exchange Act of 1934 and the Board's Regulation T as well as in section 11(d)(1) of the Act, Mr. Saperstein inquires as to the Board's views on the question whether Arnold & Company arranged for the extension of credit in the above transaction.

"The Board has not previously had occasion to construe the term 'arrange for the extension of credit' as used in the Securities Exchange Act, but it would seem that in the transaction described above Arnold & Company has arranged for the extension of credit on the common stock within the meaning of the Act."

Approved unanimously.

Letter to Mr. Young, President of the Federal Reserve Bank of Boston, reading as follows:

"Reference is made to your letter of October 9, 1936, transmitting detailed reports of the activities of the Bank and Public Relations Department of the Federal Reserve Bank of Boston for the month of September, 1936. It is assumed that the information furnished the Board is in the form which your bank finds most valuable, particularly for reference purposes. While such detailed information is helpful in reviewing conditions affecting individual cases, it is not necessary for the Board's purposes. In its letter of August 25, 1936 (X-9680), the Board assumed that, aside from any detailed individual reports on each bank visited, the officers and other representatives

11/4/36

-4-

"of your bank would customarily make narrative resumes of the information as a whole gathered during their trips. It was the thought of the Board that it would find copies of such resumes helpful to it.

"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 cover 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; 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 suggestions or criticisms made by bankers or others during visits to the Federal Reserve banks. As also stated in the Board's letter, these reports need not follow any set form, but it is felt that the information will be helpful if presented so as to give the Board a general picture of conditions in the different districts and of the attitude of bankers toward the System.

"The Board will appreciate it if you can arrange in future to send it one such report covering each month's activities, instead of the individual reports on each bank, such as were inclosed in your letter of October 9."

Approved unanimously, together with similar letters to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, and Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis.

Letter to Congressman James W. Mott, Salem, Oregon, reading as follows:

"This refers to your letter of October 14, 1936, relative to legislation during the last session of Congress providing pensions for members of the Federal Reserve Board, and requesting information regarding the pensioning of officers of the Federal Reserve System.

"While the Banking Act of 1935 was under consideration there was included in an early draft of House bill No. 7617 the following provision which would have provided retirement benefits for members of the Federal Reserve Board, now known as the Board of Governors of the Federal Reserve System:

11/4/36

-5-

"Each appointive member of the Federal Reserve Board heretofore appointed may retire from service upon reaching the age of seventy or at any time thereafter, and all members hereafter appointed shall retire upon reaching the age of seventy. Each member of the Board so retired from service who shall have served for as long as twelve years shall, during the remainder of his life, receive an annual retirement pay in an amount equal to his annual salary at the time of retirement: Provided, That, if he shall have served for as long as five years, but less than twelve years, his annual retirement pay shall be at the rate of one-twelfth of such annual salary for each year served and for any fraction of an additional year of such service: Provided, further, That any member whose term expires and who is not reappointed shall receive retirement pay upon the same basis as if he had been retired under the provisions of this paragraph, except that, if his term expire before he reaches the age of sixty-five and he be offered and decline to accept reappointment, he shall not receive any retirement pay. The funds necessary for such retirement pay shall be provided by the Federal Reserve banks in such manner as the Federal Reserve Board shall prescribe. Nothing in this section shall prevent the President from reappointing any member of the Federal Reserve Board holding office on July 1, 1935.'

This language was stricken from the later drafts of the bill and the Banking Act of 1935, as finally enacted into law, contained no provision for retirement benefits for the members of the Board of Governors of the Federal Reserve System.

"However, the Federal Reserve System, during 1934, established a retirement system based on actuarial principles for the benefit of its officers and employees. The funds from which retirement benefits are paid are derived from contributions by the individuals and contributions by the Federal Reserve banks or by the Board of Governors, in the case of officers and employees of the latter. The amount of the particular retirement benefit depends upon the amount of the contributions, which, in turn, depend upon the length of service and the annual salary of the officer or employee. Members of the Board of Governors of the Federal Reserve System do not participate in these retirement benefits. A copy of the rules and regulations

11/4/36

-6-

"of the Federal Reserve retirement system is inclosed here-
with."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Moriel
Secretary.

Approved:

W. S. [Signature]
Chairman.