

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 5, 1936, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman  
Mr. Broderick  
Mr. Szymczak  
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 November 4, 1936, were approved unanimously.

Telegrams to Mr. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. McKinney, President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated November 3, 1936, from Mr. Morrill recommending, for the reasons stated in the memorandum, that the Board approve the continuation on a temporary basis of the services of

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Messrs. Harry E. Toston and Robert N. Linke, as inspectors in connection with the construction of the Board's new building, for a period not longer than the date of completion of the building, with salary at the present rate of \$2,100 per annum each.

Approved unanimously.

Letter to "The First National Bank and Trust Company in Sioux Falls", Sioux Falls, South Dakota, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your supplementary application for fiduciary powers, and, in addition to the authority heretofore granted to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver and committee of estates of lunatics, grants you authority to act, when not in contravention of State or local law, in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of South Dakota, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending the preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously.

Letter to Mr. Wood, Vice President of the Federal Reserve Bank of St. Louis, prepared in accordance with the action taken at the meeting of the Board on October 30, 1936, and reading as follows:

"This refers to your letter of August 31, 1936, with inclosure, regarding the question whether Mr. Oscar Schalk, Comptroller of the Mercantile-Commerce Bank and Trust Company of St. Louis, Missouri, is an

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"executive officer of that bank within the meaning of section 22(g) of the Federal Reserve Act.

"It is understood from your letter and from the memorandum prepared by Examiner John B. Norris, which you inclosed, that the by-laws of the Mercantile-Commerce Bank and Trust Company require the Board of Directors to elect a Comptroller and provide that the Comptroller shall exercise general supervision of, and be responsible for, the efficient operation of the auditing department of the Company, that he shall be directly responsible to the Board of Directors and shall render to the Board of Directors a condensed monthly statement of the Company's condition, and that he shall make periodical examinations of all departments of the Company and make reports thereon to the Chairman of the Board, Chairman of the Executive Committee and the President. It appears that, as head of the auditing department, Comptroller Schalk is responsible for the systems employed in the various departments and supervises the mechanical operation of the work. It is also understood that he passes upon the ability of employees who are appointed to handle securities, and that he assists and advises the auditing committee of the Board of Directors at the time of the annual auditing of the Trust Company's books, accounts, and securities, in conjunction with examinations by State and Federal Reserve bank examiners.

"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 has reached the conclusion, on the basis of the information which you have presented, that the Comptroller of the Mercantile-Commerce Bank and Trust Company of St. Louis is not an executive officer within the meaning of Regulation O and section 22(g) of the Federal Reserve Act."

Approved unanimously.

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

"This refers to your letter of October 29, 1936, with which you inclosed a letter dated October 28, 1936, from Messrs. Larkin, Rathbone & Perry, counsellors for the Central Hanover Bank and Trust Company, New York City. The letter of Messrs. Larkin, Rathbone & Perry

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"presents the question whether Regulation U applies to a certain loan to a corporate investment trust on stocks to enable the borrower to retire certain debenture bonds issued by it prior to the enactment of the Securities Exchange Act of 1934. It is understood that the debentures were originally issued to obtain funds for the usual operations of the investment trust which consist very largely of purchasing listed stocks.

"As you state in your letter, since the loan is to retire the debentures of the investment trust, it appears not to be for the purpose of purchasing a stock registered on a national securities exchange, and therefore the question is whether the loan is for the purpose of carrying a registered stock.

"From the nature of the loan, it would seem to be for the purpose of carrying registered stocks unless some provision of the regulation removes it from that category. In this connection, section 3(b) of the regulation provides:

'No loan, however it may be secured, need be treated as a loan for the purpose of "carrying" a stock registered on a national securities exchange unless the purpose of the loan is to enable the borrower to reduce or retire indebtedness which was originally incurred to purchase such a stock, or, if he be a broker or dealer, to carry such stocks for customers.'

"It will be seen that section 3(b) was intended to exempt from the regulation loans which might otherwise be considered to be for the purpose of 'carrying' registered stocks merely because they happen to be secured by such stocks. This was to afford the banks more certainty in their operations under the regulation and to avoid any interference with ordinary commercial loans.

"Careful consideration has been given to the views expressed in your letter and that of Messrs. Larkin, Rathbone & Perry. However, the Board feels that the debentures constitute indebtedness within the meaning of section 3(b) and that the purpose of the loan must be considered to be the retirement of these debentures rather than merely their purchase. It also seems that in connection with questions regarding the carrying of stocks registered on a national securities exchange the present status of the stocks should be considered and that, therefore, the debentures should be considered to be indebtedness originally incurred to purchase registered stocks within the meaning of section 3(b). Furthermore, the reference in the section to brokers and dealers indicates

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"that the section was not intended to exempt loans which are closely connected with trading in registered stocks and emphasizes the fact that the present loan does not come within the general purposes of the exemption contained in the section.

"In view of these facts, the Board feels that the present loan is subject to the provisions of the regulation, and it will be appreciated if you will advise Messrs. Larkin, Rathbone & Perry of the Board's views on the question."

Approved unanimously.

Letter to Honorable J. F. T. O'Connor, Comptroller of the Currency, reading as follows:

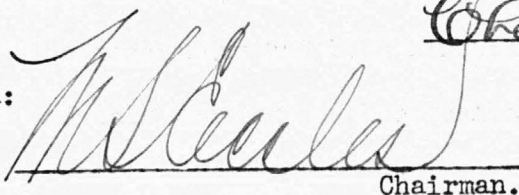
"Reference is made to the Board's letter of April 14, 1936, in regard to the Federal Reserve Issue and Redemption Division and to subsequent correspondence including the Board's letter of September 26 to Mr. Lyons, advising that the Board had deferred action on the recommendation that Mr. William John Rusch be given a permanent appointment until such time as your office reaches a decision with respect to the transfer to your payroll of the employees of the Federal Reserve Issue and Redemption Division but that in accordance with the recommendation of your office Mr. Rusch's appointment as Chief of this Division had been extended on a temporary basis until November 15.

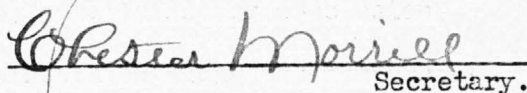
"In view of the short time remaining of the period of this temporary appointment and the pendency of the undetermined general question submitted in the Board's letter of April 14 it will be appreciated if you will advise fully as to your views with respect to this question."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.