

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, November 12, 1936, at 10:15 a.m.

PRESENT: Mr. Eccles, Chairman (first part of meeting)  
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  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of Examinations  
Mr. Parry, Chief of the Division of Security Loans  
Mr. Wingfield, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the Division of Examinations  
Mr. Bradley, Assistant Chief of the Division of Security Loans  
Mr. Chamberlin, Federal Reserve Examiner

There was presented a memorandum dated November 5, 1936, from the Division of Examinations submitting a letter dated October 28, 1936, from the Southwest Bank of St. Louis, St. Louis, Missouri, (an outlying bank approximately 4 miles from the downtown business district) applying for permission to exercise certain trust powers effective if and when the bank is granted such powers by the State of Missouri. The letter stated that for a number of years local banks and trust companies had engaged, in each case through an officer of the bank, in writing insurance as brokers and agents; that last spring the St. Louis Association of Insurance Brokers was instrumental in obtaining an opinion from the Attorney General of Missouri to the effect that it was unlawful for banks to write insurance in this manner, but trust companies and banks which had acquired trust powers might do so; and

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that the Association of Insurance Brokers, through their counsel, had demanded that the Southwest Bank of St. Louis and other banks in St. Louis discontinue the writing of insurance. The letter also stated that, as the bank derived earnings of approximately \$4,000 per year from the writing of insurance, it desired to continue that business and for that reason had requested permission to exercise fiduciary powers. The memorandum stated that the bank does not desire to conduct a general fiduciary business and recommended that, in view of all the circumstances including the favorable recommendation of Vice President Wood and the executive committee of the Federal Reserve Bank of St. Louis, the permission requested be granted. There was submitted with the memorandum a draft of a letter to Vice President Wood giving permission to exercise the fiduciary powers granted to the bank by the Commissioner of Finance of the State of Missouri, subject to acceptance by the bank of the three standard conditions of membership prescribed by the Board for member banks exercising fiduciary powers. The memorandum stated further that an application similar to the one under consideration had been received from the Manchester Bank of St. Louis and that Vice President Wood had advised that several other St. Louis banks would probably apply for permission to exercise trust powers for the same reason. The file had been placed in circulation, for approval by the members of the Board, with a note attached calling attention to the fact that the granting of the permission requested by the Southwest Bank of St. Louis would establish a precedent and should be considered by the Board from that standpoint.

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Mr. Ransom stated that when the file came to his attention he had not approved the draft of letter for the reason that, in his opinion, it was wrong in principle (1) for banks to write insurance, (2) to grant authority to exercise trust powers, or to change conditions of membership prescribed by the Board which would permit the exercise of trust powers, for the purpose of writing insurance, and (3) to authorize the exercise of trust powers without sufficient evidence that the bank has a reasonable opportunity and a desire to develop trust business. In accordance with Mr. Ransom's request the matter had been placed on the docket for discussion at the meeting of the Board.

After a discussion, upon motion by Mr. McKee which was carried unanimously, action on the application of the Southwest Bank of St. Louis was deferred with the understanding that a conference would be arranged with Vice President Wood of the Federal Reserve Bank of St. Louis for a discussion of the questions of policy involved.

In connection with this action it was understood that, inasmuch as a meeting of the stockholders of the Southwest Bank of St. Louis had been called for today to authorize the acquisition of trust powers, Mr. Morrill should call Mr. Wood on the telephone and advise him of the Board's action.

Subsequently Mr. Morrill reported that he had talked to President Martin of the Federal Reserve Bank of St. Louis on the telephone and had advised him of the Board's decision, and that Mr. Martin had stated that Mr. Wood was out of the city but that he (Mr. Martin) would communicate advice of the Board's action to the Southwest Bank of St. Louis.

During the discussion it was suggested that a consequence of a

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refusal by the Board to grant the Southwest Bank of St. Louis permission to exercise trust powers might be the withdrawal of the bank from membership in the Federal Reserve System. Mr. Broderick stated that the possibility of withdrawals from membership should not affect action by the Board on any matter where the Board is convinced that its decision is in the best interests of the Federal Reserve System, and that in this connection he hoped the Board would make effective the definition of "interest" contained in subsection 1(f) of Regulation Q, Payment of Interest on Deposits, which prohibits the absorption by member banks of exchange and collection charges, regardless of the question whether it may result in withdrawals from membership and even though the Federal Deposit Insurance Corporation may be unwilling to incorporate a similar definition in its regulation with respect to the payment of interest on deposits by insured nonmember banks. Mr. Ransom called attention to the fact that the Board had requested the views of the Federal Advisory Council on certain aspects of this matter and stated that following the meeting of the Council on November 16 and 17 he would submit a recommendation to the Board as to the action to be taken by it.

It was agreed that it would be advisable for the Board to defer for the time being any action with respect to putting the definition of interest in the regulation into effect.

At this point Messrs. Paulger, Leonard and Chamberlin left the meeting.

Mr. Ransom expressed the opinion that the Board members should have under continuous consideration the problem of the margin requirements prescribed in Regulation T, Extension and Maintenance of Credit by Brokers,

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Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange, and suggested that it might be helpful to the Board in analyzing any developments that would call for a change in the prescribed margin requirements if a periodic report could be submitted by the Division of Security Loans covering matters which should be taken into consideration by the Board in determining whether margin requirements should be changed or other action taken under the authority conferred on the Board by the Securities Exchange Act of 1934. Chairman Eccles stated that at his request the Division of Research and Statistics had recently undertaken to submit to the Board periodic memoranda analyzing current matters of interest to the Board, called attention to a paragraph bearing on this subject which had been incorporated in the most recent memorandum on the basis of information furnished by Mr. Parry, and suggested that the memoranda could be enlarged to include more detailed information.

During the ensuing discussion it was understood that Chairman Eccles' suggestion would be adopted.

Mr. Ransom said that his purpose in bringing the matter up at this time was to insure that the general subject of margin requirements would receive adequate consideration by the Board, particularly in view of the existing latent factors which might lead to unusual activity in the securities markets.

At this point Mr. Smead, Chief of the Division of Bank Operations, joined the meeting.

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Mr. Parry stated that at the present time Regulation T provides that whenever a creditor is required by the regulation to demand additional margin he shall demand such margin as promptly as possible and shall obtain such margin as promptly as possible and in all events before the expiration of three full business days; that under this provision of the regulation it is possible for traders to buy securities and sell them before this requirement becomes effective without furnishing any margin; and that in his opinion this provision was in effect a considerable loophole in the regulation. He also stated that the Division of Security Loans had given a great deal of study to this problem; that he had prepared a draft of an amendment which would permit "daylight" trading without furnishing margin but would require the furnishing of the prescribed margin not later than the close of the day upon which the securities are purchased in cases where they are to be held over that night or longer; and that he had discussed the proposed amendment with Chairman Landis and members of the staff of the Securities Exchange Commission and felt that it was agreeable to them.

Upon inquiry Mr. Parry said a similar change in Regulation U was not contemplated as it was generally the practice of banks to require the necessary margin before the underlying transaction was effected.

Mr. Parry suggested that the proposed amendment be discussed by the senior staff and then sent to the Federal reserve banks with a request for their comments and the comments of the local security ex-

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changes and that following receipt of their recommendations and the recommendations of other interested parties the amendment be put in final form and submitted to the Board for approval.

Mr. Broderick moved that the proposed amendment be considered by the senior staff in accordance with the usual procedure, that the staff be requested to submit to the Board a draft of a telegram to the Federal reserve banks setting forth the proposed amendment, together with copies of a proposed press release relating to such amendment; that when such telegram, amendment and press release have been approved by the Board the press release be given out for publication at a time which will follow the receipt by the Federal reserve banks of the telegram, amendment and press release, with the understanding that the Federal reserve banks will contact the exchanges in their respective districts in the customary manner for the purpose of obtaining their comments and suggestions and that the Federal reserve banks will be requested to submit their views together with such comments and suggestions as promptly as possible within a time to be fixed in the telegram.

Carried unanimously. In this connection it was understood that the staff would not be expected to submit the matter to the Board prior to Wednesday, November 18, 1936.

During the discussion of the above matter Mr. Thurston, Special Assistant to the Chairman, entered the room, and at the conclusion of its consideration Chairman Eccles left the meeting.

There was then presented a letter received by Mr. Smead under date of November 5, 1936, from Mr. Luther A. Harr, Secretary of Banking of the State of Pennsylvania, advising that a meeting of the Permanent Committee on Standardization of Bank Report Forms, which had been created to work out a uniform form of condition report for use by the

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Federal and State supervisory authorities, had been arranged for Monday, November 16, 1936, and suggesting that Mr. Smead, who had served as a member of the committee, be present at that time. Mr. Smead had discussed the question of his attendance at the meeting with Mr. Ransom who had requested that it be brought up at a meeting of the Board.

Mr. Ransom pointed out that the committee had been organized prior to the reorganization of the Board and that upon observing the work of the committee he had become convinced that such a committee, composed of representatives of the Federal supervisory agencies and State banking authorities together with representatives of bankers associations, was not a practical medium for the development of a uniform report form. He also stated that, in view of the fact that, because of differences of opinion with the Federal Deposit Insurance Corporation, the Comptroller of the Currency had withdrawn his representation on the committee and it appeared that the objective for which the committee was organized could not be achieved, the questions were presented to the Board whether Mr. Smead should attend the meeting on November 16 and what the position of the Board should be with respect to further representation on the committee.

At this point Messrs. Parry and Bradley left the meeting.

At the request of Mr. Ransom, Mr. Smead outlined the circumstances under which the committee was organized and its activities since organization and reviewed briefly the circumstances leading up to the calling of the meeting on November 16. Mr. Ransom stated that



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it would be his suggestion that the committee be dissolved and that a new committee be organized, composed of representatives of the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, which would have for its purpose the drafting of a uniform form of condition report to be used by the three agencies, and that after this had been achieved a conference could be held with a committee of State bank supervisors in an effort to bring the report forms of the two groups into agreement. He also said he would be opposed to the Board being represented at the meeting of the present committee on November 16.

After a discussion of various aspects of the matter, Mr. McKee stated that he had a luncheon engagement with Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, today and suggested that it might be desirable for members of the Board to discuss the matter with him at that time.

At the conclusion of the discussion it was agreed unanimously that Messrs. McKee and Davis would discuss the matter with Mr. Crowley with the thought in mind that he might be agreeable to a procedure which would result in the dissolution of the present committee and the organization of a separate committee along the lines suggested by Mr. Ransom.

It was also agreed unanimously that no decision should be reached with respect to the attendance of Mr. Smead at the meeting of the committee set for November 16 until after Messrs. McKee and Davis had conferred with Mr. Crowley, and that a meeting of the Board should be held at 11:00 a.m. tomorrow to give further consideration to the matter.

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Mr. Ransom recommended that the senior staff be requested to prepare for the consideration of the Board a draft of a procedure to be followed in future proceedings under the provisions of section 30 of the Banking Act of 1933 and to submit recommendations with respect to the amendment of the section if, after consideration of the matter, amendment of the statute appears to be desirable.

Mr. Ransom's recommendation was approved unanimously, with the understanding that counsel would prepare a preliminary draft of the procedure for consideration by the staff.

At this point Messrs. Thurston, Wyatt, Smead and Wingfield 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 November 11, 1936, were approved unanimously.

Telegrams to Mr. Leach, President of the Federal Reserve Bank of Richmond, and Mr. Moore, Chairman of the Federal Reserve Bank of San Francisco, 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.

Telegram to Mr. Newton, President of the Federal Reserve Bank of Atlanta, referring to the application of the "Citizens Bank & Trust

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"Company", Carthage, Tennessee, for permission to withdraw immediately from membership in the Federal Reserve System, and stating that the Board waives the usual requirement of six months notice of intention to withdraw, and that, accordingly, upon surrender of the Federal reserve bank stock issued to the Citizens Bank & Trust Company, the Federal Reserve Bank of Atlanta is authorized to cancel such stock and make appropriate refund thereon. The telegram also stated that it was understood that the bank had applied to the Federal Deposit Insurance Corporation for insurance as a nonmember and that it was assumed that President Newton would endeavor to have the bank defer the termination of its membership in the System until it could simultaneously be accepted as a nonmember insured bank.

Approved unanimously.

Telegram to Mr. Day, President of the Federal Reserve Bank of San Francisco, reading as follows:

"Re your letter of October 14, 1936, recommending, subject to certain conditions, that 'Peoples Bank and Trust Company', Seattle, Washington, be permitted to retire the balance of its outstanding debentures. In this connection it is noted from the report of examination of the bank as of September 1, 1936, that Chairman of the Board Green stated to your examiner that the bank is committed to a program of conserving its earnings and recoveries except for the payment of a dividend not in excess of 5 per cent, for the purpose of building up and maintaining its capital structure in an amount equal to 10 per cent of its deposit liability. Accordingly, in view of your recommendation and the bank's indicated program the Board will interpose no objection to the retirement by the bank at this time of its capital debentures sold to the Reconstruction Finance Corporation, with the understanding that the bank will continue to conserve its earnings and recoveries pursuant to the plan outlined by Chairman Green."

Approved unanimously.

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

"This refers to your letter of November 3, 1936, in regard to the violation by The Miami Deposit Bank, Yellow Springs, Ohio, of the provisions of Section 5136, of the Revised Statutes, which was disclosed in the examination of May 23, 1936.

"While the report of examination does not give the date of acquisition of the Eastern Gas and Fuel Associates bonds, the purchase of which resulted in the violation in question, it does state that they had been recently purchased, and, according to one of the investment services, these bonds were issued in March, 1936. The applicable provisions of Section 5136 have been in effect since August 23, 1935, and the bank's action in investing nearly three times its legal limit in one issue of bonds constitutes a violation of that statute and the bonds cannot be permitted to be held indefinitely in excess of the limitation prescribed by law. In view of the circumstances as outlined in your letter, however, and in accordance with your recommendation, the Board will not insist upon immediate sale of the bonds of the Eastern Gas and Fuel Associates now held by the bank in excess of the statutory limitations, but will expect that such bonds be disposed of as promptly as may be practicable without material loss.

"It is noted that the State examiner made the following requirement in connection with the examination of May 23, 1936:

'Reduce the investment in Eastern Gas and Fuel Associates. Par value \$23,000. Book value \$20,700. Excessive \$700.'

"Inasmuch as the par value of the original investment was \$28,000 and the book value \$27,020, the transaction was evidently a violation of State law also, and the bank's action, if unintentional, shows a lack of knowledge of both State and Federal requirements which is a serious reflection on the management."

Approved unanimously.

Memorandum dated November 5, 1936, from Mr. Vest, Assistant General Counsel, submitting a copy of the by-laws of the Federal Reserve Bank of St. Louis as revised at a meeting of the board of directors of

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the bank on October 21, 1936, and stating that in view of the fact that the revised by-laws of the bank comply with the suggestions contained in the Board's letter of February 14, 1936, it seemed appropriate merely to acknowledge receipt of the copies of the revised by-laws. A draft of a letter for that purpose was submitted with the memorandum.

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morice  
Secretary.

Approved:

W. S. ...  
Chairman.