

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 17, 1936, at 3:00 p.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 16, 1936, were approved unanimously.

Letter to Mr. McRae, Assistant Federal Reserve Agent at the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of October 16, 1936, with inclosures, regarding the merger on July 11, 1936, of the State Street Trust Company and The Union Trust Company of Boston, both of Boston, Massachusetts.

"It is noted that your counsel is of the opinion that the merger was legally effective under the laws of Massachusetts and did not affect the legal status of the State Street Trust Company as a member of the Federal Reserve System. It is noted also that you have forwarded a number of copies of underlying documents showing the action taken by the officers, directors and/or stockholders of the two institutions leading up to the merger, in addition to copies of certain other

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"documents which have been furnished to you in this connection.

"As you know, in connection with a consolidation or merger under the charter of a State member bank or a transaction in which a State member bank purchases or acquires certain assets and liabilities of another bank, it is the Board's practice to obtain copies of any contracts or agreements entered into by the banks involved, any amendments to the charter of the member bank continuing in existence made in connection with the particular transactions, and, if possible, any approval given by the appropriate State supervisory authorities to the merger, consolidation or acquisition of assets and liabilities, including a copy of any specific authorization granted by such authorities for the establishment of any branch resulting from the transaction. It will not be necessary, however, for you to furnish copies of the underlying documents usually executed in such cases, as, for example, documents showing the preliminary action taken by the officers, directors and/or stockholders of the banks leading up to the consummation of the transaction.

"While in some cases it may be desirable for the Federal Reserve bank itself to obtain copies of underlying documents of this kind, in order that its counsel may be satisfied as to the legality of the matter, the determination of the question as to what underlying documents, if any, need be obtained in any particular case must be made by the Federal Reserve bank and its counsel in the exercise of a reasonable discretion in the light of all the facts existing in each case. However, it is suggested that, in the absence of special circumstances, the counsel for the Federal Reserve bank could rely in each case upon information received from the State supervisory authorities that appropriate action had been taken by the officers, directors and/or stockholders looking toward the merger, consolidation or acquisition of assets and liabilities.

"In connection with the above, your attention is invited to the Board's letter of December 26, 1934 (X-9060a), with regard to obtaining and furnishing the Board with copies of amendments to the charters of State member banks."

Approved unanimously.

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

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"Receipt is acknowledged of your letter of November 12 in regard to the possible withdrawal of the Bank of Dawson, Dawson, Georgia, from membership in the Federal reserve system.

"The personal interest you have taken in this matter and your report of the conferences which you have had have been noted by the Board and it has asked me to express to you its appreciation of what you have done."

Approved unanimously.

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

"The Board of Governors of the Federal Reserve System has considered the action of the Executive Committee of your bank, referred to in your letter of October 31, 1936, and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to Central National Bank in Chicago, Chicago, Illinois, to maintain the same reserves against net demand deposits and time deposits as are required to be maintained by Reserve city banks, effective with the first semi-weekly reserve computation period beginning after the date of this letter.

"Please advise the bank of the Board's action in this matter, calling its attention to the fact that such permission is subject to revocation at any time by the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter to Brown & Shipley, Attorneys at Law, Westminster, Maryland, reading as follows:

"Your letter of October 16, 1936, to Mr. I. I. Chorpening, Chief National Bank Examiner, with reference to the discontinuance of the trust department of the Farmers and Mechanics National Bank, Westminster, Maryland, has been referred by the office of the Comptroller of the Currency to the Board of Governors of the Federal Reserve System for reply.

"Under the provisions of section 11(k) of the Federal Reserve Act, the Board of Governors of the Federal Reserve System, after satisfying itself that a national bank has been properly relieved of all of its duties as fiduciary, may in

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"its discretion issue a formal certificate that such bank is no longer authorized to exercise the trust powers previously granted to it. Section 11(k), however, does not require a national bank to secure a certificate of this kind in the event that it discontinues the operation of its trust department, but provides that, upon the issuance of such a certificate, the bank (1) shall no longer be subject to the provisions of section 11(k) or the regulations of the Board made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts, and (3) shall not thereafter exercise any trust powers without first applying for and obtaining permission to do so from the Board.

"The Board has not issued any forms to be used in cases of this kind and the procedure which it has prescribed therefor is described in detail in section 16 of its Regulation F, revised effective June 1, 1936, a copy of which is inclosed. Accordingly, if the Farmers and Mechanics National Bank desires to obtain such a certificate, it should proceed in accordance with the provisions of Regulation F. You will note that, among other things, the Board has provided that information sufficient to satisfy the Board that the bank has been properly relieved of all of its duties as fiduciary must be developed by a national bank examiner upon the occasion of the next regular examination of the bank.

"The particular arrangement described in your letter, under which the bank acts as trustee in connection with the issuance of corporate bonds, appears to involve a fiduciary relationship which it will be necessary for the bank to terminate before the Board will issue its certificate certifying that the bank is no longer authorized to exercise trust powers."

Approved unanimously, together with a letter to Mr. Gibbs Lyons, Deputy Comptroller of the Currency, reading as follows:

"There is inclosed a copy of the Board's reply to the letter of October 16, 1936, from Messrs. Brown & Shipley, Westminster, Maryland, which you forwarded to the Board on October 24, 1936, advising as to the procedure necessary to be followed by the Farmers and Mechanics National Bank, Westminster, Maryland, in order to obtain a certificate from the Board terminating the bank's right to exercise trust powers.

"In this connection, you will observe that the letter from Messrs. Brown & Shipley, a copy of which is also inclosed,

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"inquires whether, if the bank discontinues its trust department and only acts as trustee in one instance, its activities as such will be subject to examination by your office, and, if so, whether it will be charged for such examination. You may wish to advise Messrs. Brown & Shipley on this point."

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"This refers to Mr. Keesee's letter of August 29, 1936, with which were inclosed copies of the by-laws of the Baltimore and Charlotte Branches of the Federal Reserve Bank of Richmond in the form adopted by the Board of Directors of your bank on August 13, 1936.

"It has been noted that section 2 of Article V of the by-laws of each Branch provides that the 'Managing Director shall, under the general supervision of the President of the Federal Reserve Bank of Richmond, have general charge of the administration of the \* \* \* \* \* Branch.' In view of the fact that section 3 of the Federal Reserve Act provides that branches of Federal Reserve banks, 'subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, shall be operated under the supervision of a board of directors,' a question might be raised as to whether the language of the above provision of the by-laws is entirely consistent with the provisions of section 3 of the Federal Reserve Act. However, it is believed that this question is not of sufficient importance to make necessary further consideration of the matter at this time. In this connection, it may be said that several questions which have arisen regarding the by-laws of various branches of Federal Reserve banks have suggested the advisability of a review of the entire procedure regarding such by-laws, and the Board of Governors expects to make such a review with a view toward bringing about such changes as may seem desirable.

"It is understood that the provisions of section 1 of Article V of the amended by-laws of each Branch, relating to the appointment and tenure of officers, and the provisions of section 6 of article V of such by-laws, relating to the appointment and compensation of an Associate Counsel at each Branch are, of course, subject to the provisions of the Federal Reserve Act which authorize the Board to remove officers and directors of Federal Reserve banks and which make any compensation of directors, officers, and employees of Federal Reserve banks subject to the approval of the Board of Governors.

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"You are advised that, on the basis of the interpretation stated above, the Board of Governors has approved the by-laws of the Baltimore and Charlotte Branches as adopted on August 13, 1936. It will be appreciated if you will forward to the Board two additional copies of the amended by-laws of each of these Branches."

Approved unanimously.

Letter to the Presidents of all Federal reserve banks, reading as follows:

"It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1937.

"Heretofore the Board has requested that it be furnished with copies of the budgets in the form prepared by the banks for their own use. In the case of about half of the banks these budgets have been prepared along functional lines while in the case of the other banks they have been prepared on a departmental basis. Since detailed figures or operating costs are compiled along functional lines by all Federal Reserve banks and since a better comparison can be made between expenses and budgets when the budgets are prepared in the same form in which expenses are reported, it will be appreciated if the 1937 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, X-9739-a, attached. The statements should show totals for each function in the functional expense reports, Form E.

"As you were advised by the Board when the statistical and analytical and bank examination work was transferred from the Federal Reserve Agent's department to the bank, the budgets for these departments should be submitted for its advance approval. Accordingly, it is requested that budget statements be submitted on Form X-9739-b and X-9739-c showing the itemization of the budgets of these two functions in the same detail as expenses for these functions are shown in Form E.

"A supply of forms X-9739-a, X-9739-b, and X-9739-c is inclosed."

Approved unanimously.

Letter to Mr. Clinton B. Eilenberger, Third Assistant Postmaster

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General, reading as follows:

"As you know, for a number of years all shipments of Federal reserve notes from the Bureau of Engraving and Printing to the Federal reserve banks have been made in pouch units under a special 'K' series lock, and the Federal reserve banks have been billed for postage, surcharges, registry and insurance fees thereon by the Washington Postmaster.

"Two of the Federal reserve banks have recently called the attention of the Board to the fact that on shipments of notes of the ten dollar denomination or higher it is the practice of the local Postmaster to charge a registry fee for each package in a pouch rather than a single registry fee on each pouch. These banks stated that this practice does not appear to be consistent with the fact that each pouch is in effect a single package so far as handling in the mails is concerned, and expressed the opinion that a single registry fee should be charged on each special 'K' series lock pouch containing Federal reserve notes of the ten dollar denomination or higher within the maximum weight limit of seventy pounds.

"The position taken by these Federal reserve banks in this respect appears to the Board to be reasonable, particularly as each pouch is treated as an unopened unit by the Post Office Department. The Board trusts that after reviewing this matter you will agree that only one registry fee should be charged on each special 'K' series lock pouch containing shipments of Federal reserve notes of the ten dollar denomination and higher and that you will instruct the Washington Postmaster accordingly."

Approved unanimously.

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

"Careful consideration has been given to your letter of October 23, 1936, and the memorandum from counsel to your bank regarding the applicability of section 32 of the Banking Act of 1933 to the service of Mr. Robert Winthrop Kean as president and director of Livingston National Bank, Livingston, New Jersey, and as partner in the firm of Kean, Taylor & Co., New York, New York.

"It is noted that in reliance upon information submitted to it in May 1936 regarding the business of the firm, the

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"board of directors of Livingston National Bank elected Mr. Kean a director, and subsequently president of the bank, and that upon being advised of this you requested information as to the business of the firm for the period January 1, 1936, to June 30, 1936. This information shows that the type of business described in section 32 constituted the following percentages of the total business of the firm: 1933 - 7.2; 1934 - 7.2; 1935 - 18; 1936 (6 months)- 24.2; average - 13.4.

"On the basis of this information you state that you and counsel for your bank feel that section 32 is not applicable, counsel's memorandum indicating that his opinion is based on the average figure given above and on the fact that the business described in section 32 is not the chief activity of the firm. However, in the cases which have arisen heretofore, the Board, using the history and purpose of section 32 as an aid in interpreting it, has interpreted the section as including cases in which the business described constituted one of the primary activities of the firm, and not necessarily the most important activity; and although the average figure in the present case is less than the average figure in any case in which the Board has ruled that section 32 was applicable, it is higher than in any case in which the Board has ruled that the section was not applicable. Furthermore, the figure for 1936 is higher than the average figure in some cases in which the Board has ruled that section 32 was applicable. This case therefore presents a question which may possibly arise in a number of others, namely, whether or not the figure for 1936 should be deemed more truly indicative of the nature of the business of the firm than the figures of 1933 and 1934 on the ground that the relative inactivity of the firm in those years may have been merely the result of conditions beyond its control.

"Accordingly, before reaching a decision the Board would appreciate any further comments which you or counsel for your bank may wish to make in the light of these questions in order to assist the Board in arriving at a proper interpretation of section 32 as applied to cases such as this."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.