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 A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, November 25, 1936, at 10:30

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  
 Mr. Thurston, Special Assistant to the  
 Chairman  
 Mr. Wyatt, General Counsel  
 Mr. Smead, Chief, Division of Bank  
 Operations  
 Mr. Paulger, Chief, Division of  
 Examinations  
 Mr. Vest, Assistant General Counsel

ALSO PRESENT: Mr. John N. Peyton, President of the  
 Federal Reserve Bank of Minneapolis

Chairman Eccles stated that this meeting with Mr. Peyton had been arranged for the purpose of discussing the Helena branch. Mr. Peyton read excerpts from various communications sent to the Board beginning with the report submitted with his letter of October 9, 1933, and including a statement of the joint action taken by the boards of directors of the Federal Reserve Bank of Minneapolis and the Helena branch on October 17, 1936, authorizing, subject to the approval of the Board, the erection of a new building in which to house the operations of the Helena branch. He also discussed the character of the

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territory served by the branch, the service rendered by the branch as compared with the service which could be rendered to banks in Montana by the Federal Reserve Bank of Minneapolis in the event the branch was discontinued, and the question whether it would be practicable to convert the branch into an agency. In connection with the desirability of such conversion, Mr. Peyton expressed the opinion that such a step would result in very little saving over the present cost of operation of the branch. He also said that undoubtedly there would be considerable opposition on the part of individuals in Helena as well as in Montana generally, to the discontinuance of the branch and that such opposition would be greater if the Spokane branch of the Federal Reserve Bank of San Francisco were retained than would be the case if the latter branch were discontinued also. Mr. Peyton stated finally that he felt an immediate decision should be reached in the matter as the present branch building had been so damaged by the recent earthquakes that there was some question whether it was entirely safe for occupation.

During a discussion of various phases of the matter referred to by Mr. Peyton, Chairman Eccles called attention to the fact that the general question of the continuance and scope of the functions of branches of Federal reserve banks was being studied by the Board at the present time and suggested that it would be desirable that a decision on the future of the Helena branch be deferred until the Board

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could determine upon a general policy with respect to branches. He suggested that pending such determination the Minneapolis bank should take immediate steps to have the necessary repairs made to the present building so that there would be no question as to the safety of the branch employees in the building. Mr. Peyton stated, in this connection, that he believed that the necessary repairs to the building to make it safe for occupancy in the absence of future earthquakes would be less than \$4,000. Mr. Broderick stated that he would appreciate it if any decision with respect to the Helena branch could be deferred until the study referred to by Chairman Eccles had been completed.

The question was also raised whether, in the light of the present flow of business and banking activities in Montana, Helena was the logical location for a branch and it was suggested that before a decision is reached as to the erection of a new building there should be a further study of this question.

At the conclusion of the discussion, Mr. Davis moved that the Secretary be requested to prepare a letter to Mr. Peyton stating that, in the light of the discussions at the meeting today, the Board feels that a decision on the action of the directors of the Federal Reserve Bank of Minneapolis and Helena branch with respect to the erection of a new branch building at Helena should be deferred for a period not exceeding six months to allow sufficient time for the completion of the study now being made of the general question of the continuance of branches of Federal reserve banks and their functions, and that it is suggested that steps be taken by the Federal Reserve Bank of Minneapolis as promptly as possible to make such

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repairs to the building as are necessary for the safety of the occupants.

Carried unanimously.

Messrs. Peyton and Paulger left the meeting at this point.

Mr. Ransom referred to the question of possible regulation by the Securities and Exchange Commission of trust activities of banks and trust companies which was discussed by Mr. T. K. Smith, President of the American Bankers' Association, at the meeting of the Board on November 13, 1936, and stated that subsequent to that meeting Mr. Landis, Chairman of the Securities and Exchange Commission, had called him (Mr. Ransom) on the telephone and had stated that Commissioner Douglas, who had charge of the investigation made by the Securities and Exchange Commission which gave rise to this matter, would be glad to discuss the question further with him. In accordance with this arrangement, Mr. Ransom said that he had an engagement with Mr. Douglas for luncheon today for the purpose of going over the situation and learning his views with respect to the suggestion that the problem be met by an amendment to the Board's Regulation F, Trust Powers of National Banks.

Mr. Ransom also reported that pursuant to his request at the meeting on November 13, he had received from Mr. Smith a copy of the statement prepared by the special committee of the American Bankers' Association as to mortgage trusts and indentures, as well as a copy of a digest prepared by the Securities and Exchange Commission of suggestions covering substantive requirements with respect to trust

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agreements which might be incorporated in a regulatory statute, and suggested that these two documents be turned over to Counsel for summary and such comments as he may have to make in a memorandum to be submitted to the Board in the usual course.

Mr. Ransom's suggestion was approved unanimously.

Mr. Ransom inquired whether there was any objection on the part of the members of the Board to his conferring with Mr. Douglas concerning the matter with the understanding that if he has any information regarding the subject which should be presented to the other members of the Board Mr. Douglas will be invited to a meeting of the Board for that purpose.

Mr. McKee moved that the matter be left with Mr. Ransom to handle in such manner as he saw fit.

Carried unanimously.

Mr. Ransom then referred to the action taken at the meeting of the Board on November 12, 1936, with respect to the application of the Southwest Bank of St. Louis for permission to exercise trust powers and stated that after conferring with Vice President Wood of the Federal Reserve Bank of St. Louis regarding a convenient date for a conference with the Board on the matter, it had been suggested that Mr. Wood be in Washington on Monday, November 30, 1936.

It was agreed that Mr. Ransom should advise Mr. Wood that the suggested date was agreeable to the Board.

Mr. Ransom stated that there had been placed in circulation

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among the members of the Board for their information prior to consideration at a meeting, a memorandum prepared by Mr. Vest, Assistant General Counsel, under date of November 18, 1936, with respect to a proposal that an amendment be made to the Social Security Act for the purpose of bringing all banks within the operation of the Act. The memorandum stated that such an amendment would raise a serious question as to the application of the statute to Federal reserve banks, and suggested various alternative amendments to the law which would avoid that result. Mr. Ransom suggested that the memorandum be given careful consideration by the members of the Board from the standpoint of the effects of the application of the Social Security Act to member banks of the Federal Reserve System as well as to Federal reserve banks.

In connection with this matter, Chairman Eccles stated that he had discussed informally with Chairman Winant, of the Social Security Board, the monetary aspects of the Social Security Act and that he had an appointment with Mr. Winant for Friday of this week to go further into the matter. He said that, at his request, the Division of Research and Statistics had been making a study of the general question and that he would like to suggest that a memorandum setting forth the results of the Division's study be submitted to and read by the members of the Board following which the entire matter could be discussed at a meeting of the Board.

All of the members expressed agreement with Chairman Eccles' suggestion.

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There was presented a memorandum dated November 12, 1936, from Mr. Vest, Assistant General Counsel, with respect to a letter dated November 2, 1936, from First Vice President Parker of the Federal Reserve Bank of Atlanta, setting forth the circumstances surrounding the appointment of Mr. P. L. T. Beavers, Assistant Cashier of the Atlanta bank, in his personal capacity as trustee under an indenture of trust made by the Gainesville Replacement Homes, Inc.; the deed of trust serving as security for notes to be issued by the corporation to the Reconstruction Finance Corporation. The memorandum pointed out that while it appeared that Mr. Beavers' duties under the trust may require considerable time he would serve without compensation; that there seemed to be no reasonable possibility that the Federal Reserve Bank would be involved in any financial liability under the arrangement; that there was nothing to prevent Mr. Beavers from accepting the appointment and that, in view of the fact that the deed of trust had already been executed, it would not seem necessary to request that Mr. Beavers resign his trusteeship at this time, although it was felt that as a general rule officers and employees of a Federal reserve bank should devote their entire time and attention to their duties with the banks and not have outside business activities which consume any substantial portion of their time or energies. Mr. Broderick had attached a note to the memorandum stating that he was opposed in principle to any officer of a Federal reserve bank acting as trustee in this or any other similar capacity and had requested that the matter be discussed

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at a meeting of the Board.

After discussion, Mr. Broderick moved that the Federal Reserve Bank of Atlanta be advised that the Board is opposed in principle to an officer of a Federal reserve bank acting as trustee in the manner contemplated in the trust indenture under consideration and that it is felt that Mr. Beavers should resign as trustee at as early a date as is practicable under the circumstances.

Carried unanimously.

Pursuant to the action taken at the meeting of the Board on November 16, 1936, with respect to the plan for the transfer of the employees of the Federal Reserve Issue and Redemption Division to the office of the Comptroller of the Currency, there was presented for the consideration of the Board a resolution reading as follows:

"WHEREAS, section 324 of the Revised Statutes of the United States provides that there shall be in the Department of the Treasury a bureau, the chief officer of which shall be called the Comptroller of the Currency, which shall be charged with the execution, under the general supervision of the Board of Governors of the Federal Reserve System, of all laws passed by Congress relating to the issue and regulation of all Federal Reserve notes; and

"WHEREAS, section 11(d) of the Federal Reserve Act provides that the Board of Governors of the Federal Reserve System shall be authorized and empowered to supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal Reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal Reserve agents applying therefor; and

"WHEREAS, section 16 of the Federal Reserve Act provides that the expenses necessarily incurred in executing



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"the laws relating to the procuring of Federal Reserve notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal Reserve banks; and

"WHEREAS, a consideration of the applicable provisions of the law and the practical problems involved in the operation of the Federal Reserve Issue and Redemption Division has convinced the Board of Governors of the Federal Reserve System that the employees of such division should be carried on the payroll of the Comptroller of the Currency rather than on the payroll of the Board of Governors; and

"WHEREAS, under date of April 14, 1936, the Board of Governors addressed a letter to the Comptroller of the Currency requesting him to advise the Board whether his office was agreeable to the transfer from the payroll of the Board to the payroll of the Comptroller of the employees of such division, and a letter was received by the Board of Governors on November 14, 1936, from the Deputy Comptroller of the Currency stating that the Comptroller's office would be agreeable to the transfer of the employees of such division to the payroll of the Comptroller;

"NOW, THEREFORE, BE IT RESOLVED, that the Board of Governors of the Federal Reserve System hereby agrees to the transfer of the employees of the Federal Reserve Issue and Redemption Division from the Board's payroll to the payroll of the Comptroller of the Currency effective at the close of business on November 30, 1936; and

"BE IT FURTHER RESOLVED, that, subject to the provisions of the law regarding the issue and retirement of Federal Reserve notes, the Board of Governors will, upon request made by the Comptroller of the Currency from time to time, deposit to his credit with the Treasurer of the United States the funds necessary to cover the amount of the salaries of the employees of the Federal Reserve Issue and Redemption Division and the other expenses of its operation in advance of the actual payments by the Comptroller of the Currency of such salaries and expenses."

Upon motion by Mr. McKee, the resolution was adopted by unanimous vote and the following letter to the Comptroller of the Currency was approved unanimously, with the understanding that if the termination of the participation of the employees of the Federal Reserve Issue and Redemption Division in the Retirement System of the Federal reserve banks should result in any injustice in any case, the Board will give

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consideration to what action it might take in such case:

"Further reference is made to Mr. Lyons' letter of November 14, 1936, with regard to the Federal Reserve Issue and Redemption Division, in reply to which the Board on November 16, 1936, expressed its agreement with the plan to transfer the employees of the Federal Reserve Issue and Redemption Division to your payroll and to the suggestion that the funds necessary to cover the expense of the operation of the Division be deposited by the Board with the Treasurer of the United States in advance of actual payments by your office. In that letter the Board suggested that the transfer be made effective as at the close of business November 30 instead of November 16 as proposed in your letter and extended the appointment of Mr. William John Rusch as Chief of the Division until the close of business November 30, 1936.

"Consideration has been given to the details of the steps which should be taken in order to make this transfer effective and the Board believes that the procedure outlined below should be followed.

"In order that the Board may be advised as to the amount of funds that should be deposited with the Treasurer to cover estimated expenses of the Federal Reserve Issue and Redemption Division, it is desired that the Board be advised as promptly as possible as to the estimated total expenses of the division for the month of December, listing the employees and their salaries covered by the estimate for personal services and showing separately the amounts estimated for non-personal services such as office supplies, equipment, etc., in the same form as has been followed heretofore in the Board's budgets for the Division. It is not the thought of the Board, however, that it would continue to pass upon individual appointments as it has heretofore. In this connection, there should be furnished also an estimate of the portion of the total expenses which is attributable to operations connected with the preparation and delivery of Federal reserve notes to the Federal reserve banks and the portion attributable to operations connected with the redemption of Federal reserve notes. Similar information should be furnished not later than June 15 and December 15 of each year covering estimated expenses for the following six months period beginning July 1 and January 1, respectively.

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"It is further requested that the Board be furnished at this time with a statement showing the number of Federal reserve notes of each Federal reserve bank destroyed during the month of October, 1936, and, as soon as practicable after December 1 and June 1 of each year, a similar statement showing the number of notes of each bank destroyed during the six months period ending November 30 and May 31, respectively.

"It is understood that, as promptly as possible in January and July of each year, you will furnish the Board a statement showing the actual expenses of the Federal Reserve Issue and Redemption Division during the preceding six months ending on December 31 and June 30, respectively (except that the statement to be furnished in January, 1937, would cover only the month of December, 1936) and that such statement will show the name and position of each employee with the salary actually paid to him, together with a statement of all other expenses of the Division in a form corresponding to that of the estimate previously furnished for such period, in addition to which the Board should be furnished from time to time such other information in regard to the operation and expenses of the Federal Reserve Issue and Redemption Division as it may deem necessary in the discharge of the supervisory responsibility placed upon it by law.

"The Board feels that it is desirable that each employee of the Federal Reserve Issue and Redemption Division be advised formally of his transfer from the Board's payroll to the payroll of the Comptroller of the Currency and a copy of the letter proposed to be sent to each such employee is attached hereto.

"It will be appreciated if you will as promptly as possible advise the Board of your concurrence with the procedure outlined in this letter so that it may be put into effect without delay.

"In accordance with the suggestion contained in Mr. Lyons' letter of November 14, 1936, there is inclosed herewith a copy of a resolution which has been adopted by the Board of Governors of the Federal Reserve System agreeing to the transfer of the employees of the Federal Reserve Issue and Redemption Division from the Board's payroll to the payroll of the Comptroller of the Currency, effective at the close of business on November 30, 1936, and providing that the Board will, upon request made by the Comptroller of the Currency from time to time, deposit to his credit with the Treasurer of the United States the funds necessary to cover the amount of the salaries of the employees of the Division

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"and other expenses of its operation in advance of the actual payments by the Comptroller of the Currency of such salaries and expenses."

The letter to the employees of the Federal Reserve Issue and Redemption Division referred to in the above letter to the Comptroller of the Currency reads as follows:

"After careful consideration by the Board of Governors and the Comptroller of the Currency of the applicable provisions of law and the practical problems involved in the operation of the Federal Reserve Issue and Redemption Division, it has been decided that the employees of such division should be carried on the payroll of the Comptroller and, accordingly, all employees of the division will be transferred from the Board's payroll to the payroll of the Comptroller of the Currency effective at the close of business on November 30, 1936. Pursuant to the above arrangement, you will no longer be an employee of the Board of Governors of the Federal Reserve System after the close of business on November 30, 1936.

"This transfer will, of course, terminate your participation in the Retirement System of the Federal Reserve Banks. Under the Rules and Regulations of the Retirement System, you will be entitled to receive, within 30 days after the filing with the Retirement Committee of an application therefor, a lump sum equal to the full amount of your contributions, with interest thereon, or, if you have completed ten years of service, you may, before November 30, 1936, choose to have your contributions used to provide a deferred annuity instead of withdrawing your contributions in cash.

"It is suggested that all employees of the division consult Mr. J. R. Van Fossen, 324 Shoreham Building, Washington, D. C., who is a member of the Retirement Committee, without delay for information concerning any benefits for which they may apply under the Rules and Regulations of the Retirement System of the Federal Reserve Banks."

In connection with the above matter, the following letter to the Presidents of all Federal reserve banks was also approved unanimously:

"For a short time after the establishment of the System the employees of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the

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"Currency were carried on the Comptroller's payroll and the Board reimbursed the Comptroller's office for the expenses of the Division. Under Date of February 13, 1915, the Comptroller of the Treasury ruled that the Comptroller of the Currency had no authority to carry such employees on his payroll and, in accordance with that opinion, the employees were transferred to the Board's payroll.

"Recently this question was reconsidered and the Comptroller has now advised the Board that his office has made arrangements whereby all employees of the Federal Reserve Issue and Redemption Division will be carried on the payroll of the Comptroller of the Currency, effective December 1, 1936, provided the Board deposits with the Treasury of the United States to the credit of the Comptroller of the Currency in advance sufficient funds with which to pay all expenses of the Federal Reserve Issue and Redemption Division.

"The Board has approved this arrangement and effective at the close of business November 30, 1936, the employees of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency will be transferred from the payroll of the Board to the payroll of the Comptroller of the Currency and thereafter the expenses of the Federal Reserve Issue and Redemption Division will be met by special assessments on the Federal Reserve banks.

"The total cost of operating the Division during a given semi-annual period will be prorated among the Federal Reserve banks on the basis of the number of canceled Federal Reserve notes of each Federal Reserve bank destroyed by the Issue and Redemption Division during the preceding six-month period ending on May 31 or November 30, respectively. The cost of operating the Division during the month of December, 1936, will be prorated on the basis of the number of notes of each bank destroyed during October, 1936, and the first assessment will be for an amount sufficient to cover the cost of operating the Division for the month of December, 1936, only. You will be advised by wire before the end of November of the amount of this assessment.

"Part of each assessment to cover the expenses of the Federal Reserve Issue and Redemption Division should be included on Form 96 in the item 'Original cost of Federal Reserve currency' and part in the item 'Cost of destruction of Federal Reserve currency'. The portion of each assessment to be charged to the original cost and the portion to the cost of redemption of Federal Reserve currency will be given in the Board's wire advising you of the assessment.

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"Prior to January 1 and July 1 of each year you will be advised of the amount of the assessment to be paid by your bank to cover expenses of the Issue and Redemption Division during the succeeding six-month period and the amount of such assessment should be deposited with the Federal Reserve Bank of Richmond to the credit of the Board of Governors on the first business day of January and July, respectively.

"In furnishing your bank advice as to the amount of the assessment to cover expenses of the Issue and Redemption Division for a six-month period the code word CHISMATE will be used. This code word, to be inserted at the top of page 50 of the Federal Reserve Telegraph Code Book, will have the following meaning:

'Please deposit with the Federal Reserve Bank of Richmond on \_\_\_\_\_ (a) \$ \_\_\_\_\_ to cover expenses of the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency for the next semi-annual period. Of this amount (b) \$ \_\_\_\_\_ should be charged to the original cost of Federal Reserve notes and (c) \$ \_\_\_\_\_ to cost of redemption of Federal Reserve notes.'

Reference was then made to the recommendations that would be necessary for the personnel committee to submit to the Board between now and the end of the year with respect to the appointment of directors at Federal reserve banks and branches and the Board's own budget and expenditures and Mr. Broderick suggested that, inasmuch as he would be absent from Washington visiting Federal reserve banks during the greater part of December, an alternate member of the committee be appointed to serve during his absence in order that the recommendations of the personnel committee may not be delayed.

Upon motion by Mr. Davis, Mr. McKee was appointed to serve as a member of the personnel committee during any absence of Mr. Broderick in December.

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In connection with the above action, it was understood that any further suggestions that the members of the Board had to make with respect to the appointment of Class C directors and directors of branches of Federal reserve banks for terms beginning January 1, 1937, should be submitted to the personnel committee as promptly as possible.

Mr. McKee referred to the discussion at the meeting of the Board on October 30, 1936, with respect to the credit granted by the Revenue Act of 1936 to holding company affiliates in the amount of earnings devoted by such affiliates during the taxable year to the acquisition of readily marketable assets in compliance with section 5144 of the Revised Statutes. He stated that he was opposed in principle to the Board's present practice of issuing general voting permits without limitation as to the time during which they may remain in effect and that, while he did not desire to make an issue of the question at this time, he thought that the Board should give consideration in due course to the advisability of issuing general voting permits with stated dates of expiration. Mr. McKee said that he had given much thought and study to the advisability of modifying the provisions of the standard form of agreement which the Board now requires all holding company affiliates to execute as a condition precedent to the granting of general voting permits and that he had reviewed the situation thoroughly with members of the Board's staff. He added that he felt the Board should give the whole matter consideration as promptly as possible. It was understood that the matter would be taken up at the meeting of the Board on Friday, December 4, or at the request of Mr. McKee, on an earlier date.

At this point Messrs. Thurston, Wyatt, Smead, and Vest left

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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 24, 1936, were approved unanimously.

Telegrams to Messrs. Young, Leach and McKinney, Presidents of the Federal Reserve Banks of Boston, Richmond and Dallas, respectively, stating that the Board approves the establishment without change by the banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Newton, President of the Federal Reserve Bank of Atlanta, prepared pursuant to the action taken at the meeting of the Board on October 20, 1936, and reading as follows:

"Reference is made to the pending application of the 'American Bank and Trust Company', Miami, Florida, a newly organized bank, for membership in the Federal Reserve System. When Mr. Clark, Vice President of your bank, was in Washington for the examiners' conference, he was advised informally that the application was being deferred pending developments regarding the addition of an experienced bank officer to the staff, in accordance with an agreement made by representatives of the bank with the Federal Deposit Insurance Corporation.

"The Board has again reviewed the matter in the light of the information developed by Mr. Paulger, Chief of the Board's Division of Examinations, on the occasion of his recent visit to Miami.

"In its letter of September 12, 1936 (X-9695), the Board stated that a newly organized bank is eligible for



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"membership and should not be denied membership simply because it is newly organized; that upon occasion the Board has approved membership applications of banks being organized, membership to become effective upon opening for business; but that whether the application of such a bank should be approved or deferred depends upon the circumstances in each case; that if there were serious reservations as to any of the important factors involved, it would seem appropriate to discourage membership until the bank has been in existence for a sufficient time to prove that it merits membership.

"As regards the application of the American Bank and Trust Company, while it appears that the city of Miami can support another bank which will, as the applying institution apparently intends to do, cater to the smaller class of business, and no question has arisen concerning the financial condition of the institution, there are some reservations, because of the lack of previous banking experience, as to the management and the principal sponsors of the organization, although it has been noted in this connection that the organizers agreed with the Federal Deposit Insurance Corporation to strengthen the executive staff as soon as practicable by the addition of a practical banker of tested experience.

"The character of the management is, of course, one of the most important factors to be considered in connection with a bank's application for membership in the System. In view of the lack of practical banking experience by those of the management of the American Bank and Trust Company who apparently will dominate its affairs, the Board feels that it would be preferable to defer action on the application until after the desired strengthening of the management has been effected and the bank has been in operation for a sufficient time to prove that it merits membership. It is requested, therefore, that you advise the bank that the application is being held in abeyance for the reasons stated. It is requested also that, after a reasonable time, an investigation be made to determine whether the management has been adequately strengthened and whether there have been any subsequent developments of an unsatisfactory nature in other factors involved. Upon the receipt of a report of such investigation and a current report of examination, the Board will be glad to consider the application in the light of the information furnished."

Approved unanimously.

Letter to Mr. Gidney, Vice President of the Federal Reserve

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Bank of New York, reading as follows:

"Reference is made to the maturity on November 30, 1936, of \$100,000 of capital notes sold by the 'Floral Park Bank', Floral Park, New York, to the Reconstruction Finance Corporation.

"You will recall that in the Board's letter to you dated June 15, 1936, it was stated that in view of the approaching maturity of the notes it was assumed that the bank was giving consideration to the matter of maintaining an adequate capital position. Informal information from your office indicates that the bank has not, as yet, formulated definite plans in this connection. The report of an examination of the bank made as of June 25, 1936, by an examiner for the Federal Reserve Bank of New York reflects, after allowance for estimated losses, doubtful assets, and net depreciation in securities, a net sound capital of \$186,100, which amounts to 8.8% of deposits, aggregating \$2,102,400. Your office has informally reported that the examiner for the New York State Banking Department who participated in the examination was less severe in his classification of assets adversely criticized.

"It appears that the Floral Park Bank is located in a place having a population in excess of 10,000 inhabitants and, therefore, if this bank were being admitted to membership at this time it would be required to have a capital stock of at least \$100,000 in order to be eligible for membership. It is the Board's position that it violates the provisions of the Federal Reserve Act for a State member bank to reduce its capital below the amount required for admission to membership in the System. Accordingly, it is assumed that, if you have not already done so, you will call the attention of the Floral Park Bank to the fact that it will violate the provisions of the Federal Reserve Act if a reduction of its capital by the proposed retirement of capital notes sold to the Reconstruction Finance Corporation is effected without an increase of its capital stock to at least \$100,000. As you know, capital notes sold to others than the Reconstruction Finance Corporation may not, under the provisions of the Federal Reserve Act, be considered as capital stock for purposes of membership in the Federal Reserve System.

"The Board also feels that as a matter of sound banking practice the bank should maintain an adequate amount of sound capital and surplus in relation to its deposits and other corporate responsibilities.

"It will be appreciated if you will cooperate with the New York State Banking Department in having the Floral Park

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"Bank make appropriate provision for maintaining an adequate sound capital position in view of the approaching maturity of the capital notes. Please keep the Board advised as to developments in this connection."

Approved unanimously.

Letter to Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, reading as follows:

"This refers to your letter of October 8, 1936, with regard to the Board's letter of September 30, 1936, (X-9709), in which the Board stated that, while it felt that it was not desirable that Federal Reserve banks engage as a general practice in receiving uninvested trust funds on deposit from member banks, for the present it will offer no objection to the receipt of such deposits in a special account when in the judgment of the Federal Reserve bank special circumstances render such service to a particular member bank desirable for a temporary period.

"You advise that, in lieu of accepting trust funds from a member bank on deposit in a special account, it is your practice to certify checks of a member bank drawn against its reserve account payable to itself. It is understood that such certified checks are indorsed in blank and delivered by the member bank to its trust department in exchange for funds of an equal amount, and that when the trust department subsequently desires to obtain the funds it returns the checks to the commercial department in exchange therefor and the checks are then re-deposited in the reserve account of the member bank with the Federal Reserve bank.

"The Board of Governors offers no objection to the practice above described in lieu of the receipt of deposits of uninvested trust funds of a member bank in a special account, when in the judgment of your bank special circumstances render such service to a particular member bank desirable for a temporary period. As in the case of receipt of deposits of uninvested trust funds, however, it is believed that in any case in which the facts are known to you this service should be discontinued as soon as the special circumstances justifying it are eliminated."

Approved unanimously.

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

"In order that an analysis may be made of the reserve position of individual member banks on the basis of the latest available data, it will be appreciated if you will kindly furnish the Board with statements in accordance with the attached form showing daily average figures of required reserves, reserve balances, and balances due from banks separately for (1) Country banks for the period November 1 to November 15, inclusive, (2) Central Reserve city banks for the period October 31 to November 13, inclusive, and (3) Reserve city banks for the period October 31 to November 13, inclusive. As indicated in the statement form, 10 copies of which are inclosed, the figures of reserve balances should be taken from your bank's books and the other figures from the semi-monthly, weekly, and semi-weekly reports of deposits submitted for reserve computation purposes.

"It is suggested that the desired statements be forwarded by air mail if it appears that this will expedite their receipt by the Board."

Approved unanimously.

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

"The Treasury Department has called to the attention of this office a number of vouchers submitted by Federal reserve banks, covering telegrams sent over branch lines, which have been returned to the Department by the General Accounting Office without approval and with the statement that there was no showing as to the method used in computing the cost per word used in arriving at the amounts shown on the vouchers.

"In a discussion of this matter by a representative of the Board and the General Accounting Office the latter advised that it would meet the requirements of the office if vouchers covering branch line telegrams showed the number of words sent over the branch lines, the items making up the total cost of operating the branch lines and the cost per word derived by dividing the cost of operations by the number of words sent.

"While the General Accounting Office now understands

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"that the per-word cost of operating the main lines is determined in this office and has advised that no further question will be raised in connection with vouchers showing such cost, it is believed to be desirable that vouchers covering all reimbursable telegrams should be prepared by the Federal reserve banks on a uniform basis. Accordingly, there is set forth below a sample of a suggested schedule covering telegrams sent over the main lines of the leased wire system, as well as a schedule covering branch line telegrams which the General Accounting Office stated would be satisfactory to it:

Main Lines

For transmission of official telegrams over the Federal Reserve Leased Wire System on account of the appropriation above named during the month of July, 1936, as per messages attached, based on actual cost of service as determined by the Board of Governors:

1,000 words at \$.014386444.....\$14.39

Branch Lines

For transmission of official telegrams over the (name of branch) branch line on account of the appropriation above named during the month of July, 1936, as per messages attached; based on an actual per-word cost as set forth below:

1,000 words at \$.012229929.....\$12.23

Number of words passing over branch line during July, 1936.....37,629

Total cost of branch line for July, consisting of personal services, supplies and cost of wire and machine rental.....\$460.20

Resulting in an actual per-word cost of.....\$.012229929

"When the branch line per-word cost is higher than the per-word cost of the main lines and the latter is used as a basis for billing branch line business, pursuant to the Board's letter of June 27, 1936, B-1160, the following should be inserted in the schedule between the statement of the number of words sent for the appropriation and the statement showing the manner in which the actual per-word cost was determined:

'Telegrams covered by this item are billed at per-word cost of main lines as determined by

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"the Board of Governors, which is lower than the actual cost as shown below:'

"It was pointed out that some of the vouchers returned by the General Accounting Office stated that the expense was incurred during the month following that in which the telegrams were actually sent. It is possible that this resulted from the suggestion contained in the Board's letter of March 26, 1936, X-9534, that since the Federal reserve banks could not be advised by the Board as to the per-word cost of telegrams sent in one month until after the first of the succeeding month, the charges for telegrams sent during the month for the account of various government agencies should be included in the regular monthly voucher requesting reimbursement for expenses incurred during the succeeding month. It was not intended that telegrams should be listed as expenses incurred in any month other than that in which they were actually sent, and while they may be included as an item on a voucher covering other expenses incurred during a succeeding month, the item should show clearly that it covers an expense incurred in the month during which the telegrams were sent."

Approved unanimously.

Letter to Mr. John R. London, Cashier, The Peoples National Bank, Rock Hill, South Carolina, reading as follows:

"This refers to your letter dated November 19, 1936, regarding the question whether the Peoples Trust Company of Rock Hill, Rock Hill, South Carolina, is a holding company affiliate of your bank within the definition in section 2(c) of the Banking Act of 1933, as amended.

"It is understood that the bank has outstanding 1,500 shares of common stock and 900 shares of preferred stock, of which the Peoples Trust Company of Rock Hill owns 157-1/2 shares of common stock and 741 shares of preferred stock. It is also understood that at the last election of directors of the bank 1,184-1/2 shares were voted, of which 166-1/2 shares belong to the trust company; that the trust company does not control in any manner the election of a majority of the directors of the bank; and that none of the shares of the stock of the bank are held by trustees for the benefit of the shareholders or members of the trust company. On the basis of the above facts, it is the view of the Board of Governors that the Peoples Trust Company of Rock Hill is not a holding company affiliate of your bank and, accordingly, it is not necessary for the trust company to obtain

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"a voting permit in order to vote the stock of your bank which it owns.

"You also request a ruling concerning the method of voting stock of your bank which is held by the trust department of the bank as sole executor or administrator of an estate and stock which is held by the bank as co-executor or co-administrator of an estate. This question appears to fall within the jurisdiction of the Comptroller of the Currency rather than of the Board of Governors and, therefore, your inquiry regarding this point has been referred to the office of the Comptroller.

"If you should have any further inquiries regarding the question whether the Peoples Trust Company of Rock Hill is a holding company affiliate of your bank, it is suggested that you communicate with the Federal Reserve Bank of Richmond, which will be glad to consider your inquiries."

Approved unanimously.

Thereupon the meeting adjourned.

Chesler Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.