

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, December 11, 1936, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Ransom, Vice Chairman (first part of meeting)  
Mr. Szymczak  
Mr. McKee

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. Goldenweiser, Director of the Division of Research and Statistics  
Mr. Vest, Assistant General Counsel

There was a general informal discussion of suggestions which had been made of methods that might be employed to sterilize gold imports in such a manner as would prevent their resulting in further additions to the excess reserves of member banks.

At the conclusion of the discussion, Messrs. Thurston and Goldenweiser left the meeting.

There was presented a memorandum dated December 9, 1936, from Mr. Ransom which read in part as follows:

"In my memorandum of November 28, 1936, I referred to the fact that on December 28, 1935, the Board deferred until such date as may be fixed by further action of the Board the effective date of subsection (f) of section 1 of Regulation Q (which, in the form adopted by the Board on November 26, 1935, contains a definition of "interest" in effect prohibiting the absorption by member banks of exchange and collection charges). I stated that it would be my purpose to move that this subsection be made effective and that we direct the attention of the Federal Deposit Insurance Corporation to the fact that the Board's regulation would become effective, say, on February 1, so that the Corporation would have ample opportunity to reconsider the question whether or not it wished to adopt a uniform definition.

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"In order to expedite the disposition of this matter, I now recommend that subsection (f) of section 1 of the Board's Regulation Q be made effective February 1, 1937; that, immediately following the approval of this recommendation by the members of the Board, the Board's Secretary transmit to the Federal Deposit Insurance Corporation a letter advising the Corporation of the Board's action, with a statement that the action will be announced on a date to be specified in such letter, which will be the tenth day following such approval, and that such advice is being sent in order that the Corporation may have an opportunity to consider whether it wishes to take action which will effect uniformity between the regulation of the Corporation which relates to this matter and that of the Board of Governors, but that it is desired that the Corporation refrain from giving out any information regarding the Board's action until the Board issues its announcement; that the form of the announcement of such action, to be prepared by the Board's Counsel, be sent to all Federal reserve banks by the Board's Secretary with a request that copies thereof be mailed to all member banks on such tenth day; and that on that date the announcement be released to the press at the Board's offices in Washington.

"If, however, any member of the Board should object to such action or request that the matter be considered further at a Board meeting, I recommend that the matter be placed upon the docket for action on the earliest date when all members of the Board can attend."

The memorandum had been circulated among the members of the Board who were in Washington and the recommendation contained therein had been approved by them. Attention was called to the statement made by Mr. Broderick at the meeting on December 4 that, if this question came up during his absence, he wished to have it understood that he approved making subsection 1(f) of Regulation Q effective as soon as possible. It was also stated that Mr. Morrill had talked with Mr. Davis over the telephone from Pasadena, California, on December 10 and that Mr. Davis had stated that unless he telephoned or wired on the afternoon of December 10 or the morning of December 11, he should be considered as approving Mr. Ransom's recommendation. The Board was informed that no subsequent advice had been received from Mr. Davis.

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The question whether the definition of interest as contained in Regulation Q should prohibit the absorption by member banks of out-of-pocket expenses including exchange and collection charges had been studied very thoroughly by members of the Board and its staff since action was taken by the Board on December 28, 1935, deferring the effective date of subsection 1(f) of the regulation, particularly in the light of the fact that the Federal Deposit Insurance Corporation has not been disposed to adopt a similar definition in its regulation with respect to the payment of interest by insured nonmember banks. It was felt, however, that inasmuch as section 19 of the Federal Reserve Act expressly provides that "No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand", except as provided in the statute, and as the absorption of out-of-pocket expenses including exchange and collection charges by member banks is in effect a payment of interest and, if permitted, would constitute an effective means of circumventing the provision of the statute, the Board should put into effect a definition of interest which would prohibit the absorption of such out-of-pocket charges.

Accordingly, upon motion by Mr. Ransom, his recommendation was approved unanimously, and the Board, by unanimous vote, adopted the following resolution:

"RESOLVED, That subsection (f) entitled 'Interest', of section 1 of revised Regulation Q, the effective date of which subsection was deferred on December 28, 1935, until such date as should be fixed by further action of the Board, shall become effective on February 1, 1937."

Pursuant to the above action, the following letter to Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, was also approved unanimously:

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"Reference is made to Chairman Eccles' letter to you dated December 23, 1935, and to your reply thereto of January 20, 1936, relative to subsection (f), entitled 'Interest', of section 1 of the Board's Regulation Q as revised effective January 1, 1936.

"As you know, the Board on December 28, 1935, deferred until such date as might be fixed by further action of the Board the date upon which subsection (f) becomes effective, although all other provisions of Regulation Q went into effect on January 1, 1936. During the current year the Board has given exhaustive consideration to this subject, and has today taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of its Regulation Q shall become effective. However, the Board felt that it should advise you of this action, which will be announced on December 21, 1936, in order that your Corporation might have an opportunity to consider whether it wishes to take action which will effect uniformity between the portion of your Regulation IV which relates to this matter and the Board's Regulation Q.

"It will be appreciated if you will advise the Board promptly with regard to any action your Corporation may take in the premises, and refrain from giving out any information regarding the Board's action until the Board issues its announcement on December 21, 1936."

Reference was made to a draft of a letter to Mr. J. F. T.

O'Connor, Comptroller of the Currency, reading as follows:

"There are inclosed herewith copies of a letter and of its inclosures received by the Board from Counsel for The Cleveland Trust Company, in which the question is raised as to the interpretation of the phrase 'in process of collection' found in section 5204 of the Revised Statutes of the United States. The Cleveland Trust Company is a member bank of the Federal Reserve System and under the provisions of section 9 of the Federal Reserve Act is required to comply with the provisions of law imposed on national banks relating to the payment of unearned dividends.

"It is understood that it is the practice of The Cleveland Trust Company to place with a committee or group of officers or employees loans on which interest is past due and unpaid for a period of six months and that it is the duty of this committee or group to give constant and active attention to these loans, to take all such steps as are deemed practicable for their collection as soon as possible, to communicate with the debtors in an attempt to bring this about, and, whenever this method of collection after a reasonable trial proves unsatisfactory, to place the obligations in the hands of attorneys for foreclosure or other appropriate legal steps. It is also noted that formal demand for payment is made in each such case. In view of the opinion of the Special Master and of the District Judge in

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"Anderson v. Akers, 7 Fed. Supp. 924, it would seem that debts owing to The Cleveland Trust Company which are undergoing the procedure described and with respect to which active and continuous steps are being taken with a view to their collection, although they have not yet been placed in the hands of attorneys for foreclosure or other appropriate legal steps, may be considered as debts in process of collection within the meaning of section 5204 of the Revised Statutes provided that there is no reasonable ground for believing that this procedure will not be effective. It would appear on the other hand that no debt should be considered as in process of collection, even though formal demand for its payment has been made and it has been placed in the hands of a special committee such as that above described, unless the efforts to effect its collection are actively continued. Likewise, when it is apparent that the methods described will not produce satisfactory results, a debt should not be regarded as in process of collection unless appropriate legal steps are being taken with a view to its collection. The question whether a particular debt may be classified as one in process of collection within the meaning of the statute is one which must depend upon the facts and circumstances surrounding the particular case.

"The provisions of section 5204 of the Revised Statutes relate by their terms to national banks and, accordingly, before making reply to the inquiry from The Cleveland Trust Company the Board would like to have an expression of the views of your office on the question presented. You will observe the request of Counsel for The Cleveland Trust Company that the matter be given early consideration in order that the question of payment of a dividend may be settled and, accordingly, a reply at your early convenience will be appreciated.

"For your information and such assistance as it may be, there is inclosed a copy of a memorandum prepared in the office of the Board's Counsel with regard to this matter."

Approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 7, 1936, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on December 8, 9 and 10, 1936, were approved and the actions recorded therein were ratified unanimously.

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Messrs. Ransom, Wyatt and Vest left the meeting at this point. Consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

Telegrams to Messrs. Kimball, Strater, Young and Powell, Secretaries of the Federal Reserve Banks of New York, Cleveland, Chicago and Minneapolis, respectively, stating that the Board approves the establishment without change by the New York bank on December 10, 1936, and by the Cleveland, Chicago and Minneapolis banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, reading as follows:

"Receipt is acknowledged of your letter of November 19, 1936, in regard to the Hudson Trust Company of Union City, New Jersey.

"A copy of your letter is being transmitted to the Federal Reserve Bank of New York, together with a copy of this reply, with a statement that, in view of the position expressed in the last paragraph of your letter, it is felt that action upon the bank's application for membership should be held in abeyance for the time being. The Bank is being requested to keep the Board informed as to any material improvement in the situation which might later justify favorable consideration of the application and it will be appreciated if you also will inform the Board of any developments of this character."

Approved unanimously, together with a letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Inclosed for your information is a copy of a letter dated November 19, 1936, from the Chairman of the Federal Deposit Insurance Corporation regarding the Hudson Trust Company, Union City, New Jersey, which has an application for membership pending at your bank.

"In view of the position expressed in the last paragraph of Mr. Crowley's letter, it is felt that action upon the bank's application should be held in abeyance for the

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"time being. It will be appreciated if you will keep the Board informed as to any material improvement in the situation which might later justify favorable consideration of the application.

"A copy of our letter of this date to the Federal Deposit Insurance Corporation in reply to Mr. Crowley's letter of November 19 is inclosed herewith for your information."

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

"In accordance with your recommendation, the Board of Governors of the Federal Reserve System interposes no objection to the proposed plan outlined in your letter of November 19, 1936, under which The Holland City State Bank, Holland, Michigan, will absorb The First State Bank of Holland, Holland, Michigan, a nonmember insured bank, with the understanding that the transaction has the approval of the appropriate State authorities and that your counsel is satisfied that the transaction will result in no change which will affect the status of The Holland City State Bank as a member of the Federal Reserve System and that the proceedings, contracts and agreements in connection therewith are legally effective.

"It is not clear from your letter whether The Holland City State Bank will merely acquire certain of the assets and assume a corresponding portion of the deposit liabilities of The First State Bank of Holland, or whether the proposed transaction contemplates a merger or consolidation of the two institutions. In the circumstances, it is requested that your counsel give particular consideration to the question whether the consummation of the transaction will affect the status of The Holland City State Bank as a member bank. In any case of this kind submitted to the Board in the future, it is also requested that, if it is possible to do so without undue delay, you furnish definite information as to the legal nature of the proposed transaction, including a reference to the provision or provisions of the State law under which the transaction will be effected.

"In view of the provisions of section 12B(i)(4) of the Federal Reserve Act, it is assumed that, if The Holland City State Bank takes over any of the deposit liabilities of The First State Bank of Holland, the latter bank will furnish its depositors and the Federal Deposit Insurance Corporation with appropriate notice to that effect.

"In connection with the reorganization of The Holland City State Bank, it is noted that the bank has the right of substitution in the assets of The Holland City Depositors

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"Corporation for a period of two years after the payment of the indebtedness of that corporation to the Reconstruction Finance Corporation. In the report of examination of the bank as of September 16, 1935, the Examiner states that on March 19, 1935, The Holland City Depositors Corporation retired its bills payable with the Reconstruction Finance Corporation by borrowing the amount from the subject bank, which amount was paid in full on August 5, 1935. In that report and the analysis of the report of examination as of September 21, 1936, the position has been taken that the right of substitution expires on August 5, 1937. However, counsel for the Board feels that this is questionable since the bank has the right of substitution for two years 'after the indebtedness of the corporation to the Reconstruction Finance Corporation shall have been paid in full', and since the Reconstruction Finance Corporation was paid in March, 1935, it would appear that the substitution of assets should be completed within two years from that date. In the circumstances, it is suggested that you call the bank's attention to this matter in order that the expiration date of its right of substitution may be definitely determined."

Approved unanimously.

Letter to Mr. Austin, Chairman of the Federal Reserve Bank of Philadelphia, reading as follows:

"The Board has reviewed the report of examination of the Federal Reserve Bank of Philadelphia made as at the close of business September 19, 1936, copies of which were left with you and President Sinclair.

"In the report of examination of the bank as of October 21, 1933, the examiner commented on the large number of vault custodians and representatives of the Audit Department who held combinations to compartments containing securities, and the difficulty because of the large number of employees designated for such duties of placing responsibility in the event of any shortage. The examiner also questioned the advisability of having the dual control over securities maintained jointly by representatives of the auditing department with representatives of the operating department of the bank on the ground that the auditing department should not participate in operating functions. In your letter of May 18, 1934, the statement was made that it was the intention to use the new vault when completed for securities only and that under such conditions it would probably be possible to localize to a greater degree the access to the compartments. In view

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"of the fact that some adjustments were to be made in the method of handling securities after completion of the new vault, the matter was not further pursued at that time.

"The examiner has reported that during the course of the recent examination the question of control of securities, with particular reference to the participation of the auditing department in the dual control, was discussed further with President Sinclair, who stated that a review would be made of the situation. The Board will appreciate being advised as to the conclusions reached as a result of the review of the matter.

"After the report and this letter have received the consideration of the Board of Directors of the Federal Reserve Bank the Board would appreciate advice from you as to what action has been taken or will be taken on the matters discussed."

Approved unanimously.

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

"Reference Sonne's letter of November 12, 1936, and its inclosures, relating to question whether certain organizations are holding company affiliates of The First National Bank of Snohomish, Snohomish, Washington.

"Board concurs in your counsel's opinion that Robert Moody, L. L. Crosby, and J. A. Norway, Trustees, Shareholders Fund of The First National Bank of Everett (hereinafter called Shareholders Fund), constitute holding company affiliate of The First National Bank of Snohomish, and that C. M. N. Investment Company is not holding company affiliate thereof. However, Board is of opinion that The First National Bank of Everett also is holding company affiliate of The First National Bank of Snohomish, the basis of this ruling being that, in view of provisions of trust agreement requiring that trustees of Shareholders Fund be officers or directors of The First National Bank of Everett, such bank controls Shareholders Fund and indirectly controls bank stock owned or controlled by latter.

"On basis of information before it, Board does not feel that it can properly determine that either Shareholders Fund or The First National Bank of Everett is not engaged, directly or indirectly, as a business in holding stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.

"Attention is also called to fact that The First National Bank of Everett may be holding company affiliate

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"of The First National Bank of Monroe and, in this connection, it appears desirable to obtain copy of voting trust agreement under which majority of stock of latter bank is held."

Approved unanimously.

Letter to Mr. Fleming, President of the Federal Reserve Bank of Cleveland, prepared pursuant to the action taken at the meeting of the Board on December 4, 1936, and reading as follows:

"Following the receipt of your letter of December 1, 1936, regarding the presentation to employees who have had long service of gifts at the time of retirement, your letter was considered at a meeting of the Board. During the course of the discussion it was pointed out that gifts of the kind which you have in mind are usually presented under circumstances more or less personal in character which give them sentimental significance, whereas the adoption by the Federal reserve banks of a policy of making such gifts would appear to involve the necessity for such uniformity in practice in order to avoid apparent discrimination that it would result in depriving the gifts of any personal meaning to the individuals leaving the service.

"While it was understood that you would like to have a decision reached on this matter before the termination in December of the service of the four employees referred to by you, the Board felt that, since it would become a question of policy for all of the banks, it would be desirable, before the Board determined what action should be taken upon the matter, to obtain an expression of the views of the Presidents' Conference as to the advisability from an operating viewpoint of the adoption of such a practice. Therefore, a copy of your letter is being sent to President Harrison, Chairman of the Presidents' Conference, with a request that your suggestion be placed on the program for consideration at the next meeting of the Presidents' Conference."

Approved unanimously.

Letter to Mr. R. D. W. Connor, Archivist, The National Archives, reading as follows:

"Reference is made to your letter of October 21, 1936, addressed to Chairman Eccles, with respect to the destruction of papers which appear to have no permanent value or historical interest.

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"In accordance with the instructions submitted with your letter, there are transmitted herewith, in triplicate, lists, together with samples of the items shown thereon, of papers, documents, etc., the destruction of which should be authorized. It will be appreciated if you will include this material in the lists to be submitted by you to Congress at the first of the year pursuant to the provisions of the National Archives Act. As the Board of Governors will move all of its Washington offices to a new building on June 1, 1936, it will be appreciated if you will have your examiners review the material as promptly as possible and if you will take such other action as may be appropriate to expedite its destruction sometime before that date.

"Most of the material listed is of a confidential nature and should be destroyed rather than sold. Accordingly, it is felt that authority should be obtained for the incineration by the United States Destruction Committee of all of the papers in the same manner as useless papers of the Board were destroyed in July of this year."

Approved unanimously.

Letter to Mr. J. W. Adams, Division Manager, American Telephone and Telegraph Company, Washington, D. C., reading as follows:

"This refers to your letter of November 4, 1936, inclosing specimens of the new form of contract which your Company proposes to use effective July 1, 1937, covering the Board's private line services. It is proposed that this form of contract will also be used in connection with any additional private line services requested by the Board prior to July 1, 1937.

"Under the proposed arrangement, it appears that there will be a separate contract in the form of an application by the Board covering each particular service desired; and that the service requested will be furnished subject to and in accordance with the Company's lawful rates and regulations. It is understood that these rates and regulations are contained in the private line service tariffs filed by your Company with the Federal Communications Commission.

"The specimen form of contract which you inclose indicates that, after the lapse of the 'established minimum period' which is understood to be one month, the contract may be terminated by written notice by the Board and that it may be terminated by the Telephone Company 'pursuant to its regulations'. It is noted that the Company's general regulations tariff for private line service and channels provides that the Telephone Company may, by notice in

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"writing, terminate the contract upon non-payment of any sums due to the Company, or upon the violation of any of the conditions governing the furnishing of a service or channel, or upon the use of any service or channel for the purpose of performing any service in competition with the service which the Company or its connecting companies may now or hereafter furnish. It is understood that the contract to be executed on the form now proposed will not be subject to termination by the Telephone Company except for the specific causes above mentioned.

"It is also noted that the tariff to which the new form of contract will be subject contains a provision to the effect that the service or channel furnished is intended only for communications in which the customer or an authorized user has a direct interest and shall not be used for any purpose for which a payment or other compensation shall be received by them or either of them from any other person, firm or corporation for such use, or in the collection, transmission or delivery of any communication for others. The purpose of this provision appears to be similar to that of the provision contained in Condition No. 1 of the contract now in force.

"As you may recall, there was some correspondence between your Company and the Board in 1932 with respect to the Board's practice of requiring reimbursement for the transmission of messages over the wires leased to the Board by your Company for other governmental agencies for which Federal Reserve banks may be authorized to act as fiscal agents, custodians, or depositories. At that time the Board accepted the language of the contract relating to the use of the services by the patron with the understanding that the transmission of messages for the governmental agencies of the kind in question, with the reimbursement of the Board therefor, was recognized as the established practice under the contract. This practice is still in effect and, accordingly, it is understood that the provisions of the new form of contract and the applicable tariffs will not be inconsistent with the continuance of the practice of the Board in requiring reimbursement for the transmission of messages over the wires leased to the Board for certain other governmental agencies for which the Federal Reserve banks may be authorized to act as fiscal agents, custodians or depositories and for the transmission of messages in connection with the functions of the Federal Reserve banks as fiscal agents and depositories of the United States.

"It is noted that in the new form of contract the patron agrees to pay for the services according to your Company's 'established billing practices'. It has been the established practice of your Company to obtain payment for

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"the services rendered the Board at the end of each calendar month and it is understood therefore that payment at the end of each calendar month will be in accord with the provisions of the new contract.

"It appears that the provision contained in Condition No. 5 of the contract between the Board and your Company which is now in force will be omitted from the new form of contract. Section 22 of title 41 of the United States Code provides that in every contract or agreement made or entered into, or accepted by or on behalf of the United States, there shall be inserted an express condition that no Member of or Delegate to Congress shall be admitted to any share or part of such contract or agreement, or to any benefit to arise thereupon. In the circumstances, it is assumed that you will have no objection to the inclusion in the new form of contract of the language contained in Condition No. 5 of the existing contract.

"Upon the assumption that the modification just mentioned will be made and that the Board's understanding as to the effect of the other provisions referred to above is correct, the Board offers no objection to the use of the form of contract inclosed with your letter. The Board also offers no objection to the use of the new contract numbers as suggested in your letter of November 4, 1936.

"In order that the Board may receive actual notice of any change or modification in the regulations or tariffs filed by your Company with the Federal Communications Commission which may affect the terms of the contract between your Company and the Board, it will be appreciated if you will advise the Board of any such proposed change or modification as far in advance of its effective date as may be possible.

"You are requested to confirm the Board's understanding with respect to the several matters referred to above and also to indicate whether or not you will notify the Board of changes in the regulations and tariffs as here suggested."

Approved unanimously, together with a letter to Mr. John B. Reynolds, Acting Secretary of the Federal Communications Commission, reading as follows:

"In order that the Board may receive advice as to modifications in private line service tariffs filed with your Commission which may affect the terms of the Board's contracts for private line services, it will be appreciated if you will place the Board of Governors of the Federal Reserve System on your mailing list to receive copies of the

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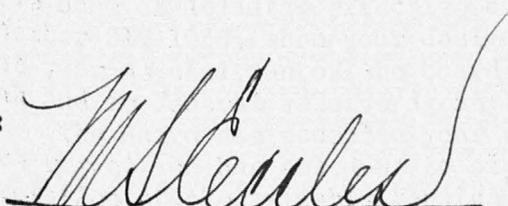
"press releases issued from time to time by the Tariff  
Section of the Federal Communications Commission."

Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.