

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, December 28, 1936, at 10:30 a. m.

PRESENT: Mr. Eccles, 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. Paulger, Chief of the Division of
Examinations
Mr. Goldenweiser, Director of the Division
of Research and Statistics
Mr. Smead, Chief of the Division of Bank
Operations
Mr. Vest, Assistant General Counsel
Mr. Wingfield, Assistant General Counsel
Mr. Thomas, Assistant Director of the
Division of Research and Statistics

Mr. McKee referred to the policy of the Board, adopted in December 1935, that it would not issue limited voting permits entitling holding company affiliates to vote to elect directors and to act upon routine matters at annual meetings of stockholders in cases where the Board had authorized the issuance of general voting permits which had not been accepted by the holding company affiliates, and suggested that the Board consider the advisability of making a statement at this time of its policy in this regard, especially in view of the action taken by the Board on December 4, 1936, amending the standard form of agreement required to be executed by holding company affiliates as a condition precedent to the issuance of general voting permits. A discussion of the matter developed that it was the consensus of the members present that the policy should be adhered to.

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Mr. McKee moved that the Federal reserve banks be advised that the Board has decided that it should follow a general policy of not issuing limited voting permits for any purpose upon the request of holding company affiliates to which the issuance of general voting permits had been authorized but which had not accepted such permits, it being understood that if in any case there should come to the attention of the Federal reserve bank facts which are of such an exceptional nature as to cause the bank to believe that the Board would be justified in making an exception to this policy, the bank should call such facts to the Board's attention for consideration.

Carried unanimously.

Reference was then made by Mr. McKee to a memorandum prepared under date of December 17, 1936, by the Division of Examinations with respect to requests received through the Federal Reserve Bank of San Francisco, from Transamerica Corporation and Inter-America Corporation, both of San Francisco, California, for limited voting permits entitling them to vote the stock owned or controlled by them in the First National Bank of Portland, Oregon, at any time prior to December 31, 1936, for the purpose of acting upon a proposal or proposals to increase the capital stock of the bank. The memorandum pointed out that the Board on December 17, 1935, authorized the issuance of general voting permits to the applicants, but that they had not signed the standard form of agreement required to be executed by holding company affiliates as a condition precedent to the issuance of general voting permits and that therefore the permit had not been issued. The memorandum also pointed out that the voting permit apparently is desired solely for the purpose of voting on a proposal to increase the capital stock of the bank by a transfer from surplus, undivided profits and reserves in order that the bank may have the legally

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required amount of capital stock for the establishment of additional branches; and that apparently no action is to be taken to effect an increase in the capital structure of the bank.

After a discussion, upon motion by Mr. McKee, the Secretary was requested to advise the President of the Federal Reserve Bank of San Francisco that, in view of the fact that the Board had heretofore authorized the issuance of general voting permits to Transamerica Corporation and Inter-America Corporation and in view of the general policy of the Board with respect to the issuance of limited voting permits in such circumstances, the Board would not grant the requests of the applicants for limited voting permits; that the period within which the general voting permits heretofore authorized by the Board might be issued to Transamerica Corporation and Inter-America Corporation has terminated; and that if such corporations now desire the Board to issue general voting permits to them they should so advise the Board in order that it might give further consideration to the matter.

Carried unanimously.

There was then presented a revised draft of the review of the month proposed to be included in the January 1937 issue of the Federal Reserve Bulletin. The review referred to the announced plan of the Treasury Department to sterilize gold imports and analyzed the continued growth of member bank reserves and the factors affecting the volume and distribution of excess reserves. Mr. McKee stated that he had requested that the matter be discussed at a meeting of the Board for the reason that he felt the review as originally prepared carried a strong implication that the Board expected to make a further increase in reserve requirements sometime after

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the first of the year. The opinion was expressed that this objection to the review had been removed in the revision and Chairman Eccles stated that he felt that the publication of the revised statement with respect to the distribution of excess reserves resulting from gold imports should be made in order to correct the erroneous idea that such excess reserves were concentrated largely in New York City and were not distributed elsewhere, particularly among country banks, and because of the fact that a number of letters had been received which showed a lack of adequate information on the subject.

The matter was discussed briefly and it was understood that the members of the Board would read the revised draft of the review and advise Mr. Goldenweiser today if they had no objection to it or, if any member of the Board had any question with respect to the draft, that the matter would be given further consideration at the meeting of the Board tomorrow.

At this point Mr. Thomas left the meeting.

Reference was made to the memorandum dated December 22, 1936, from Mr. Smead with respect to the payment of dividends, the making of certain charge-offs and the setting up of certain reserves by the Federal reserve banks at the end of the year. Copies of the memorandum had been sent to all members of the Board and Chairman Eccles stated that he had reviewed it carefully and that, while he felt the recommendations of Mr. Smead with respect to charge-offs and additions to reserves for depreciation and other purposes for the year 1936 (during which the earnings of the Federal reserve banks from Government security holdings would not be on a uniform basis), should be approved, he felt that a policy should be adopted under which a

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uniform practice as to these matters would be followed by the banks in the future and any special additions to reserves would be made only after normal expenses and reserves together with dividends had been provided for out of earnings. He also suggested that it would be desirable for the Federal reserve banks to withhold their individual press releases with respect to their earnings and expenses for the year until a statement covering the System as a whole could be released which would contain an exposition of the facts as to the System's earnings and expenses in a form which should be understood by the general public.

Upon motion by Mr. Broderick, the recommendations contained in Mr. Smead's memorandum were approved unanimously as follows:

1. In accordance with the usual procedure the Federal reserve banks were authorized to charge off the amount of furniture and equipment purchased during 1936 amounting to approximately \$252,000.
2. The Federal reserve banks were authorized to set aside the usual 2% reserve on bank buildings amounting to approximately \$896,000, and 10% reserve on fixed machinery and equipment amounting to approximately \$319,000.
3. The Federal Reserve Bank of New York was authorized to charge off \$75,546.64 representing assessed valuation of the demolished Montauk Building and incidental costs in connection with the purchase of the property; and to set aside a special reserve of \$429,000 toward reducing the book value of the head office building.
The Federal Reserve Bank of Minneapolis was authorized to set aside a special reserve in the amount of \$17,481.26 on the Helena Branch building to establish a 100% reserve thereon.
The Federal Reserve Bank of Dallas was authorized to charge off \$50,000 on the head office site and \$45,002.25 on the San Antonio site, and to set aside special reserves on fixed machinery and equipment in the amounts of \$70,525.87 at the head office, \$19,370.59 at the Houston branch, and \$7,565.56 at the San Antonio branch.

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The Federal Reserve Bank of San Francisco was authorized to set aside special reserves on bank premises at San Francisco, Los Angeles, and Salt Lake City, equal to the amount of net earnings remaining after the payment of the semi-annual dividend.

4. The Federal reserve banks listed below were authorized to set aside reserves, or to charge off determined losses, on industrial advances and commitments in the amounts shown:

Boston	\$ 57,500	Atlanta	\$ 2,000
New York	269,000	St. Louis	4,000
Philadelphia	2,000	Minneapolis	14,000
Cleveland	10,000	Kansas City	11,000
Richmond	212,000	San Francisco	25,000

5. The Federal Reserve Bank of New York was authorized to set aside an additional reserve for losses in the amount of \$151,000 in order to bring the amount of its combined reserve for losses not elsewhere provided for and reserve for self-insurance up to \$9,000,000.

The Federal Reserve Bank of Richmond was authorized to transfer to its reserve for losses not elsewhere provided for the amount of its participation in the profits realized from the sale of Government securities from the System Open Market Account, \$285,000, less \$102,000 representing reserves set aside for losses on account of claims account of closed banks in excess of losses now anticipated on such claims.

The Federal Reserve Bank of Chicago was authorized to charge off the \$75,000 paid in settlement of the Fletcher American National Bank claim and to set aside an additional reserve for losses in the amount of \$775,000.

The Federal Reserve Bank of Minneapolis was authorized to transfer to its reserve for losses \$679,000 representing its profits from the sale of United States Government securities.

The Federal Reserve Bank of Kansas City was authorized to transfer to its reserve for losses all net earnings remaining (about \$14,000) after payment of dividends.

The Federal Reserve Bank of Dallas was authorized to increase its reserve for losses not elsewhere provided for by \$500,000.

6. The Federal reserve banks were authorized to charge off the amount paid during 1936 (\$2,008,000) on assessments to cover the cost of the Board's new building.

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The Federal Reserve Bank of Chicago was authorized to set aside a reserve of \$150,000 to cover future assessments for the Board's new building.

7. The Federal Reserve Bank of Kansas City was authorized to increase its self-insurance reserve by a total of \$58,689.48 representing earnings of \$4,118 allocated to the Self Insurance Reserve, and the transfer of \$54,571.48 additional to this reserve.
8. The Federal Reserve Banks of New York, Cleveland and Richmond were authorized to set aside the usual reserves for depreciation on "Other real estate".
9. The Federal reserve banks were instructed to follow the same procedure at the end of 1936 as was followed at the end of 1935 with respect to net earnings or net losses under section 13b, i.e., allocate to funds received from the Secretary of the Treasury under Section 13b any net earnings or deficiency in earnings on industrial advances and commitments in the proportion that the average daily amount of funds received from the Secretary of the Treasury bears to the average amount of industrial advances and commitments outstanding or obligated under outstanding commitments; pay to the Treasury of the United States any net earnings so calculated up to 2% of the total payments received from the Secretary of the Treasury; to credit any remainder to Surplus (Section 13b), and to charge any loss so calculated to Surplus (Section 13b).
10. Each Federal reserve bank was authorized to pay the usual semi-annual dividend at the close of the year.

Mr. Broderick also moved that the Secretary be requested to suggest to the Federal reserve banks in a telegram that they withhold a release of any statement with respect to their earnings and expenses for the year 1936 until the Board can release a general statement.

Carried unanimously.

Mr. Broderick reported that while absent from Washington during the current month he had visited the Federal Reserve Banks of Chicago and Dallas, and the Little Rock Branch of the Federal Reserve Bank of St. Louis, the Omaha and Oklahoma City Branches of the Federal Reserve Bank of Kansas City, and the Houston, San Antonio and El Paso

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Branches of the Federal Reserve Bank of Dallas, which completed his program of visiting during the year all Federal reserve banks and branches, together with the agency at Savannah, Georgia.

There was then presented a memorandum dated November 11, 1936, from Mr. Smead, referring to approval by the Board on October 20, 1936, of the inclusion in the weekly statement of condition of Federal reserve banks of a table of maturity distributions of securities held by the Federal reserve banks, which had been circulated among the members of the Board. The memorandum suggested that, for reasons stated, the information be published in the weekly statement of condition of the Federal reserve banks in a form submitted with the memorandum which would show the maturity distribution of bills discounted, bills bought, industrial advances, and United States Government securities with maturities within fifteen days, sixteen to thirty days, thirty-one to sixty days, sixty-one to ninety days, ninety-one days to six months, over six months and up to and including one year, over one year and up to and including two years, over two years and up to and including five years, and over five years.

Mr. Szymczak moved that the form of table recommended by Mr. Smead for inclusion in the weekly statement of condition of Federal reserve banks be approved.

Carried unanimously.

Messrs. Thurston, Paulger, Goldenweiser, Smead and Wingfield then left the meeting.

There was then presented a draft of a reply to a letter dated December 10, 1936, from First Vice President Clerk of the Federal Reserve

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Bank of San Francisco, inclosing a copy of the by-laws of the bank as amended at the meeting of the board of directors on November 30, 1936. The file had been circulated among the members of the Board. Paragraph C of section 2 of Article II of the amended by-laws provided that the executive committee should have power to establish rates of discount in conformity with the provisions of section 14(d) of the Federal Reserve Act, provided the rates so established shall be the same as those recommended at the next preceding meeting of the board of directors.

During a discussion certain changes in the draft of reply to Mr. Clerk's letter were suggested and it was understood the draft would be revised accordingly and submitted to the Board again for approval.

The following letter to Mr. Paul Dillard, Deputy Chairman of the Federal Reserve Bank of St. Louis, which had been circulated among the members of the Board, was presented and discussed:

"Reference is made to your letter of December 2, 1936, in which you advise of the desire of your directors to reappoint Mr. Stuart Wilson as a director of your Little Rock Branch. It is understood that such appointment would be for the unexpired portion of the term ending December 31, 1938. Your letter was brought to the attention of the Board and discussed at a Board meeting.

"Prior to the expiration of his term as a director of the Little Rock Branch on December 31, 1935, Mr. Wilson had served continuously in that capacity for eleven years, and he was not reappointed because of the following provision of the revised regulation of the Board regarding branch directors:

'No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.'

The Board noted your statement that Mr. Wilson is an exceedingly valuable director, that he is an outstanding banker of Arkansas, and that your directors are anxious to appoint him again to the branch directorate, together with your suggestion that the appointment would not be inconsistent with the provision of the Board's regulation above referred to.

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"While the Board appreciates the desire of your board to retain the services of Mr. Wilson, it feels that the proposed reappointment would not be in accordance with the provision of the regulation as it now stands and therefore the Board could not consistently sanction the reappointment in question. The Board believes that the regulation is one that should be adhered to, and, in view of the fact that the question has arisen, the Board decided to make the regulation more definite by amending the applicable provision as set forth in a letter which is being sent to the Presidents of all Federal reserve banks, a copy of which is attached for your information."

Approved unanimously, together with
a letter to the Presidents of all Federal
reserve banks reading as follows:

"Paragraph numbered 6 of the rules and regulations regarding the appointment of directors of branches of Federal reserve banks, which were forwarded to you with the Board's letter of January 9, 1935, X-9083, contains a provision reading as follows:

'No director, other than the Managing Director, shall be reappointed for a term immediately following six or more years of continuous service as a director.'

"The question has been presented to the Board whether there would be any objection to the reappointment at this time of a branch director whose term expired on December 31, 1935, after more than six years of continuous service, the appointment to be for the unexpired portion of the term for which the director would have been appointed had he served continuously up to this time. The Board has taken the position that such an appointment would not be in accordance with the provision above referred to as it now stands and that, therefore, the Board could not consistently sanction the reappointment in question.

"The Board feels that the regulation should be adhered to, and, in order to make the provision in question more definite is amending, effective immediately, the last sentence of paragraph numbered 6 of its regulation to read as follows:

'No director, other than the Managing Director, who has had six or more years of continuous service, shall be reappointed as a director to take effect before the expiration of a period, immediately following such service, of at least two

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"years at any branch having five directors or three years at any branch having seven directors."

Consideration was then given to the recommendations of the Personnel Committee with respect to the designation of chairmen and Federal reserve agents at the Federal reserve banks, the appointment of deputy chairmen for the coming year, the appointment of Class C directors, and directors at branches of Federal reserve banks, to fill existing vacancies and vacancies which will occur on January 1, 1937, and the following unanimous actions were taken:

Mr. F. H. Curtiss was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Boston on an honorarium basis for the year 1937.

Mr. Owen D. Young was appointed Deputy Chairman at the Federal Reserve Bank of New York for the year 1937.

Mr. R. I. Austin was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Philadelphia on an honorarium basis for the year 1937.

Mr. E. S. Burke, Jr., was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Cleveland on an honorarium basis for the year 1937.

Mr. George C. Brainard was appointed Deputy Chairman at the Federal Reserve Bank of Cleveland for the year 1937.

Chairman Eccles was authorized to tender to Mr. Robert Lassiter, Class C director of the Federal Reserve Bank of Richmond, designation as Chairman and Federal Reserve Agent at the Richmond bank for the year 1937.

Mr. William H. Kettig was appointed Deputy Chairman at the Federal Reserve Bank of Atlanta for the year 1937.

Mr. R. E. Wood was appointed Deputy Chairman at the Federal Reserve Bank of Chicago for the year 1937.

Mr. Paul Dillard was appointed Deputy Chairman at the Federal Reserve Bank of St. Louis for the year 1937.

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Mr. W. B. Geery was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Minneapolis on an honorarium basis for the year 1937.

Mr. C. C. Walsh was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Dallas on an honorarium basis for the year 1937.

Mr. A. O. Stewart was designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco on an honorarium basis for the year 1937.

The meeting recessed and reconvened at 3:00 p. m. with the same attendance as at the time of adjournment of the morning session except that Mr. Paulger, Chief of the Division of Examinations, was also present.

Mr. McKee stated that he had just received a telephone call from one of the attorneys of the Securities and Exchange Commission who had advised that the Commission had scheduled a public hearing tomorrow morning at 10:00 o'clock of certain officers of the Liberty Share Corporation, an investment trust in Buffalo, New York; that some of the officers of the corporation were also officers of the Liberty Bank of Buffalo, a member bank, and that it was possible that the hearing would produce evidence which would affect the bank adversely as well as other banks in Buffalo. Mr. McKee said that he was informed that the Board had not been consulted previously on the matter because the action did not involve the officers of the member bank as such and would have to do only with transactions of the investment trust, but that the Commission was concerned about the possible effects upon the banks in Buffalo because of close

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relationships with the investment trust. Mr. McKee stated that he had inquired as to whether it would be possible to postpone the hearing and that the attorney had said that was not possible as the witnesses were already in Washington. The attorney had also inquired whether the Board desired to have an observer at the meeting and Mr. McKee suggested that such a step would be a desirable one. The attorney also had suggested, Mr. McKee said, that if an observer were present at the hearing the Commission would like to have suggestions from him if it should appear that the hearing would develop any information which might be harmful to the banks in Buffalo. Mr. McKee expressed the opinion, however, that any representative of the Board at the hearing should be present in the capacity of observer only and with the understanding that he would take no part whatsoever in the hearing.

At the conclusion of a discussion, Mr. McKee moved that Mr. Paulger be requested to have an examiner from the Division of Examinations attend the hearing with the understanding that he would be an observer only and would take no part whatsoever in the hearing.

Carried unanimously.

At this point Mr. Paulger left the meeting.

Consideration of the recommendations of the Personnel Committee with respect to the appointment of directors at Federal reserve banks and their branches was resumed. Chairman Eccles read a letter received by him under date of December 17, 1936, from Mr.

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J. J. Thomas, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Kansas City, in reply to the letter addressed to him by the Board under date of December 11, 1936, regarding his appointment as Chairman and Federal Reserve Agent at the bank on an honorarium basis. During the ensuing discussion it was suggested that, while it had been definitely understood when Mr. Thomas was appointed Chairman and Federal Reserve Agent at the Kansas City bank in February that his appointment would run only until the end of the year, the Board might be justified, in view of all the circumstances, in providing a special retirement allowance for Mr. Thomas at the end of this year, in addition to appointing him as Chairman and Federal Reserve Agent at the bank on an honorarium basis, which arrangement would require his presence at the bank only in connection with meetings of the board of directors and some of the meetings of committees thereof and would allow him ample opportunity to reestablish his contacts in Nebraska.

At the conclusion of the discussion, Mr. Davis moved that Mr. Thomas be designated as Chairman and Federal Reserve Agent at the Federal Reserve Bank of Kansas City for the year 1937 on an honorarium basis, and that the Board also authorize the payment to Mr. Thomas as of January 1, 1937, of \$10,000 which is equal to six months salary at the present rate.

Carried unanimously.

There followed a discussion of the question whether the Board should follow the general policy of allowing the Chairmen and Federal Reserve Agents at the Federal reserve banks the same fees as are

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provided by the Federal reserve banks for other directors for attendance at meetings of the board of directors, executive committee and other committees of the Board, or, instead provide an honorarium salary in lieu of fees customarily paid directors.

At the conclusion of the discussion, Mr. Broderick moved that, as a matter of uniform policy, the Board fix the compensation for the services of each Chairman and Federal Reserve Agent on an honorarium basis at the same amount as the aggregate of the fees payable during the period of service to other directors for attendance corresponding to the attendance of the Chairman and Federal Reserve Agent at meetings of the board of directors, executive committee and other committees of the Board.

Carried unanimously.

The following unanimous actions were then taken by the Board:

Chairman Eccles was authorized in his discretion to tender to Mr. Henry Sturgis Dennison, President, Dennison Manufacturing Company, Framingham, Massachusetts, appointment as Class C director of the Federal Reserve Bank of Boston for the three year term ending December 31, 1939.

It was decided to tender to Mr. Herbert Eisenhart, President, Bausch-Lomb Optical Company, Rochester, New York, appointment as director of the Buffalo Branch of the Federal Reserve Bank of New York, for the three year term ending December 31, 1939.

Mr. McKee was authorized to contact Mr. R. E. Klages, President, Columbus Auto Parts Company, Columbus, Ohio, to ascertain his availability for appointment as a Class C director of the Federal Reserve Bank of Cleveland for the three year term ending December 31, 1939, and, in his discretion, (Mr. McKee's), to tender such appointment to him for the period indicated.

In connection with the consideration of the recommendations of the Personnel Committee for the appointment of directors of the Cincinnati and Pittsburgh Branches of the Federal Reserve Bank of Cleveland for terms beginning January 1, 1937, Mr. Broderick moved that the

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Board amend its regulation with respect to the appointment of directors of branches of Federal reserve banks to eliminate the requirement that at least one director appointed by the Board shall reside outside of the city in which the branch is located.

Carried unanimously, with the understanding that the letter to the Presidents of the Federal reserve banks with respect to another amendment of the regulation approved earlier in this meeting would be revised accordingly.

Thereupon, it was decided to tender to Mr. Alexander Thomson, Chairman, Champion Paper and Fibre Company, Hamilton, Ohio, appointment as a director of the Cincinnati branch of the Federal Reserve Bank of Cleveland for the two year term ending December 31, 1938.

It was also decided to tender to Mr. George T. Ladd, President and General Manager, United Engineering and Foundry Company, Pittsburgh, Pennsylvania, appointment as a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for the two year term ending December 31, 1938.

At this point Mr. Vest left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on December 24, 1936, were approved unanimously.

Telegrams to Mr. McKinney, President of the Federal Reserve Bank of Dallas, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the San Francisco bank on December 24, 1936, and by the Dallas bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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Telegrams to Mr. Moore, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, authorizing him to issue limited voting permits to the "Anglo National Corporation", and the "Consolidated Securities Company", both of San Francisco, California, entitling such organizations to vote the stock which they own or control of the following banks:

"The First National Bank of Fairfield", Fairfield, California,
 "The First National Bank of Longview", Longview, Washington,
 "Bank of Suisun, National Association", Suisun City, California,
 "The First National Bank of Weed", Weed, California,
 "The Winters National Bank", Winters, California,
 "The First National Bank in Yreka", Yreka, California.

to elect directors of such banks at the annual meetings of shareholders, or at any adjournments thereof, at any time prior to April 1, 1937, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such banks.

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morill
 Secretary.

Approved:

W. S. ...
 Chairman.