

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, December 29, 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. Wingfield, Assistant General Counsel
Mr. Dreibelbis, Assistant General Counsel

Chairman Eccles read a memorandum addressed to the Board under date of December 28, 1936, by Mr. Dreibelbis submitting a suggested statement to be read by Chairman Eccles at the opening of the hearing to be held this morning in connection with the charges certified to the Board by the Comptroller of the Currency against Mr. H. S. Johnson, President of The Point Pleasant National Bank, Point Pleasant, West Virginia. In accordance with the suggestion contained in the memorandum the procedure to be followed at the hearing was discussed and it was agreed that the opening statement submitted by Mr. Dreibelbis should be read by Chairman Eccles at the opening of the hearing and that only such testimony or documents should be allowed to be made a part of the record as would have a bearing on the charges contained in the Comptroller's certificate.

Mr. H. S. Johnson, President of The Point Pleasant National Bank,
Mr. I. I. Chorpening, Chief National Bank Examiner for the Fifth Federal

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Reserve District, Mr. D. O. Starr, National Bank Examiner, Mr. L. A. Kelly, Attorney in the office of the Comptroller of the Currency, and Mr. Gregor Macpherson, shorthand reporter, were then invited into the meeting.

A complete record of the hearing which followed will be found in the stenographic report made by Mr. Macpherson.

At the conclusion of the hearing Messrs. Johnson, Chorpeneing, Starr, Kelly, Wingfield, Dreibelbis and Macpherson withdrew from the meeting and Mr. Goldenweiser, Director of the Division of Research and Statistics, entered the room.

There was a further discussion of the revised draft of the review of the month proposed to be included in the January issue of the Federal Reserve Bulletin, and after a discussion of the advisability of the issuance by the Board of a statement in the form proposed regarding excess reserves of member banks, it was understood that the review would be included in the January issue in the revised form with such minor changes in phraseology as were agreed upon by Messrs. Goldenweiser and Thurston.

Mr. Goldenweiser stated that Mr. F. Livesey, Acting Economic Adviser of the State Department, had advised him over the telephone that it had been decided that Mr. John H. Williams, Vice President of the Federal Reserve Bank of New York, should not be considered further in connection with the proposed appointment of a member of the financial committee of the League of Nations and that Mr. Winfield W. Riefler, who is now connected with the Institute for Advanced Study at Princeton, New Jersey, should be proposed for appointment as alternate to Mr. Norman

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Davis as a member of the committee. At the request of Mr. Livesey, Mr. Goldenweiser stated, he had contacted Mr. Riefler and ascertained that he would be willing to accept appointment as alternate to Mr. Davis on the committee.

Chairman Eccles stated that, in accordance with the action taken at the meeting of the Board on December 18, 1936, he had talked to President Harrison of the Federal Reserve Bank of New York, with respect to Mr. Williams serving as a member of the financial committee of the League of Nations and advised him of the objections to Mr. Williams serving in that capacity so long as he remained a vice president of the Federal Reserve Bank of New York or Associate Economist of the Federal Open Market Committee. President Harrison replied, Chairman Eccles stated, that he was in agreement with the Board's position and felt that the board of directors of the Federal Reserve Bank of New York would take the same position on the matter.

The meeting then recessed and reconvened at 2:45 p.m. with the same attendance as at the time of adjournment of the morning session with the exception of Mr. Goldenweiser who was not present.

Mr. Morrill stated that pursuant to the Executive Order issued by the President of the United States on November 27, 1936, the Government offices in Washington would be closed on Saturday, January 2, 1937, and inquired what action the Board wished to take with respect to its own offices.

It was agreed that the offices of the Board should be closed on January 2, 1937.

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Mr. McKee presented a memorandum dated December 21, 1936, from the Division of Examinations submitting the application for membership of the "Monongahela Trust Company", Homestead, Pennsylvania. The memorandum called attention to the fact that the applicant bank owns the controlling stock interest in the First National Bank of Homestead, Pennsylvania, and the Hays National Bank, Hays, Pennsylvania, and recommended, for the reasons stated in the memorandum, that the bank be admitted to membership without being required to dispose of the bank stocks held by it. It was pointed out that in some instances the Board had required banks applying for membership in the Federal Reserve System to divest themselves of stocks through which the applicants controlled other banking institutions or corporations which carried on business in which the applicants would not be permitted to engage directly as member banks, and that in certain cases the Board had taken the position that to permit a bank to become a member without disposing of controlling interests in subsidiary banks would be in contravention of the spirit and purpose of the law relating to the establishment of branches. It was pointed out that the Monongahela Trust Company had adequate capital funds so that, by increasing its capital stock to \$500,000 through a transfer from surplus, it could legally convert the subsidiary banks into branches, and it was agreed that, as a matter of sound general policy, the bank, if permitted to enter the System, should be required to dispose of the subsidiary banks or to convert them into branches.

After a discussion, Mr. McKee moved that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special conditions, the Board

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approve the application of the Monongahela Trust Company, Homestead, Pennsylvania, for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Cleveland:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Within six months from date of notice by the Board of Governors of the Federal Reserve System, such bank shall effect the removal from its banking quarters of the building and loan association now located therein.
- "9. As soon as practicable and not later than the expiration of one year after the date of admission to membership, such bank shall dispose of any direct or indirect ownership of all stock held in the First National Bank of Homestead, Pennsylvania, and the Hays National Bank of Hays, Pennsylvania, in which national banks it now holds a controlling stock interest, or convert such national banks into branches of the Monongahela Trust Company."

Carried unanimously.

Mr. McKee also presented a telegram dated December 17, 1936, from Vice President Clark of the Federal Reserve Bank of Atlanta, inquiring on behalf of the Barnett National Securities Corporation, Jacksonville, Florida, whether United States savings bonds could be classified as readily marketable securities within the meaning of section 5144 of the Revised Statutes of the United States and section 26(d) of the Revenue Act of 1936. The conditions surrounding the issuance and redemption of United States savings bonds, as set forth in a memorandum dated December 23, 1936, from the Division of Examinations, were discussed, and it was the consensus of the members present that the Board should take the position that United States savings bonds are readily marketable assets within the meaning of the provisions of the law referred to.

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At the conclusion of the discussion, upon motion by Mr. McKee the following telegram to Mr. Clark was approved unanimously:

"Retel December 17 concerning question whether United States Savings Bonds are readily marketable assets within meaning of provisions of section 5144, Revised Statutes, and section 26(d) of Revenue Act of 1936. For purposes of its certifications under such statutory provisions Board will consider as readily marketable assets all direct obligations of the United States and obligations fully guaranteed by the United States as to principal and interest. Bureau of Internal Revenue has not had occasion to rule on such question."

Chairman Eccles stated that Mr. Wyatt, the Board's General Counsel, had suffered a slight heart attack several days ago and his physician had advised him to take a complete rest, but that Mr. Wyatt was concerned over the amount of work to be done in the Legal Division and hesitated to be away from the office for any length of time. Chairman Eccles said that, in view of Mr. Wyatt's condition, he felt it would be desirable for him to send a letter to Mr. Wyatt stating that he (Chairman Eccles) had brought the matter to the attention of the Board and that the Board had asked him to advise Mr. Wyatt that he should free himself entirely from concern over his work at the office and that the Board desired that he remain away for such time as may be necessary, under the advice of his physician, for a complete recovery of his health.

Chairman Eccles' suggestion was approved unanimously.

Chairman Eccles then referred to the action taken by the Board on October 14, 1936, in extending the employment of Mr. J. M. Daiger, Special Assistant to the Chairman, until December 31, 1936. He reviewed briefly the work being carried on by Mr. Daiger in the home

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financing field and stated that in view of the recent developments in that situation, and because of Mr. Daiger's close contact and study of the whole matter, it would be very advantageous if his employment could be continued on a month to month basis for some period, such as three months, as might be necessitated by developments in the real estate mortgage field, which arrangement would be agreeable to Mr. Daiger.

Mr. Broderick moved that the employment of Mr. J. M. Daiger as Special Assistant to the Chairman, be continued on a month to month basis for a period not to exceed three months beginning January 1, 1937, in the discretion of the Chairman, with salary at the present rate of \$750 per month.

Carried unanimously.

The following telegram to Mr. Thomas, Chairman and Federal Reserve Agent at the Federal Reserve Bank of Kansas City, prepared following the action taken at the meeting yesterday was approved unanimously:

"Referring Board's letter December 11 and your reply December 17, Board has designated you on honorarium basis as Chairman of board of directors of Federal Reserve Bank of Kansas City and as Federal Reserve Agent for year 1937. Inasmuch as the designation will be on honorarium basis, Board has fixed your compensation for your services as Chairman and Federal Reserve Agent, to be paid by the bank, at the same amount as the aggregate of the fees payable during the same period to any other director for attendance corresponding to yours at meetings of the board of directors, executive committee and other committees of your board. In view of special circumstances involved, including expiration on December 31, 1936, of your designation as full-time Chairman and Federal Reserve Agent at bank, Board authorizes payment to you, as of January 1, 1937, of \$10,000 which is equal to six months salary at present rate. It will be appreciated if you will advise by wire of your acceptance of designation. Also please advise by wire names of those you wish to appoint as Assistant Federal Reserve Agent or Alternate Assistant Federal Reserve Agent at bank for coming year."

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Consideration of the recommendations of the Personnel Committee with respect to the appointment of Class C directors of Federal reserve banks and directors of branches of Federal reserve banks to fill existing vacancies and the vacancies which will occur on January 1, 1937, was resumed and the following actions were taken by unanimous vote:

Mr. Davis was authorized to contact Colonel B. Morgan Shepherd, Vice President of The Southern Planter, Richmond, Virginia, to ascertain his availability for appointment as Class C director of the Federal Reserve Bank of Richmond for the three year term ending December 31, 1939, and, in his (Mr. Davis') discretion, to tender such appointment to him.

Mr. Szymczak was authorized to make a further investigation of Mr. Donald H. Sherwood, Vice President and Secretary of the Maryland Car Wheel Company of Baltimore, in order to ascertain his availability for appointment as Class C director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1938, and, in his (Mr. Szymczak's) discretion, to tender such appointment to him.

It was decided that appointments as directors of branches of the Federal Reserve Bank of Richmond should be tendered as follows:

Mr. Charles P. McCormick, President of McCormick and Company, Baltimore, Maryland, as director of the Baltimore branch for the three year term ending December 31, 1939.

Mr. W. Frank Thomas, Westminster, Maryland, as director of the Baltimore branch for the unexpired portion of the term ending December 31, 1938.

Mr. W. Frank Roberts, President and Manager, Standard Gas and Equipment Company, Baltimore, Maryland, as director of the Baltimore branch for the unexpired portion of the term ending December 31, 1937.

Mr. Christie Benet of the firm of Benet, Shand & McGowan, Columbia, South Carolina, as director of the Charlotte branch for the three year term ending December 31, 1939.

Mr. George S. Harris, President of Cascade Mills, Lancaster, South Carolina, as director of the Charlotte branch for the unexpired portion of the term ending December 31, 1938.

Mr. George M. Wright, Great Falls, South Carolina, as director of the Charlotte branch for the unexpired portion of the term ending December 31, 1937.

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Mr. Frank H. Neely, General Manager and Secretary of Rich's Incorporated, Atlanta, Georgia, was appointed as Class C director of the Federal Reserve Bank of Atlanta for the unexpired portion of the term ending December 31, 1938.

Mr. Szymczak was requested to ascertain whether Mr. Harry F. Harper, President and General Manager of the Motor Wheel Corporation, Lansing, Michigan, would be willing to relinquish the vice presidency of the American State Savings Bank of Lansing, Michigan, if appointment as a director of the Detroit branch were tendered to him, and, in his (Mr. Szymczak's) discretion, to tender to him appointment as director of the branch for the three year term ending December 31, 1939.

Mr. F. K. Darragh, President, Darragh Grain Company, Little Rock, Arkansas, was reappointed a director of the Little Rock branch for the three year term ending December 31, 1939.

It was decided to tender to Mr. H. H. Tucker, President, Fones Brothers Hardware Company, Little Rock, Arkansas, appointment as director of the Little Rock branch for the unexpired portion of the term ending December 31, 1938, and to Mr. I. N. Barnett, Jr., Manager, Barnett Brothers Mercantile Company, Batesville, Arkansas, as director of the branch for the unexpired portion of the term ending December 31, 1937.

Mr. W. P. Paxton, President, Southern Textile Machine Corporation, Paducah, Kentucky, was reappointed a director of the Louisville branch for the three year term ending December 31, 1939.

It was decided to tender to Mr. A. L. Pritchard, Memphis, Tennessee, appointment as director of the Memphis branch for the three year term ending December 31, 1939, and to Mr. Holmes Sherard, J. Holmes Sherard & Company, Sherard, Mississippi, appointment as director of the branch for the unexpired portion of the term ending December 31, 1938.

Mr. J. E. O'Connell, President, Eddy Bakeries, Helena, Montana, was reappointed a director of the Helena branch for the two year term ending December 31, 1938.

Mr. Edward P. Brown was reappointed a Class C director of the Federal Reserve Bank of Kansas City for the three year term ending December 31, 1939, and as Deputy Chairman for the year 1937.

It was decided to tender to Mr. Wilson McCarthy, President, Denver and Salt Lake Railroad Company, Denver, Colorado, appointment as director of the Denver branch for the three year term ending December 31, 1939, and to Mr. James B. Grant,

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member of the firm of Lewis and Grant, Denver, Colorado, appointment as director of the branch for the unexpired portion of the term ending December 31, 1938.

It was decided to tender to Mr. T. S. Hanna, President, Baker, Hanna and Blake Company, Oklahoma City, Oklahoma, appointment as director of the Oklahoma City branch for the three year term ending December 31, 1939.

It was decided to tender to Mr. H. L. Dempster, Vice President and General Manager of the Dempster Manufacturing Company, Beatrice, Nebraska, appointment as director of the Omaha branch for the three year term ending December 31, 1939, and to Mr. W. H. Schellberg, President and General Manager, Union Stock Yards Company, Omaha, Nebraska, appointment as director of the branch for the unexpired portion of the term ending December 31, 1937.

It was decided to tender to Mr. J. H. Merritt of McKinney, Texas, appointment as a Class C director of the Federal Reserve Bank of Dallas for the unexpired portion of the term ending December 31, 1938.

It was decided to tender to Mr. Frank M. Hayner, President, Hayner Lumber Company, Las Cruces, New Mexico, appointment as director of the El Paso branch for the unexpired portion of the term ending December 31, 1938, and to Mr. Jack B. Martin, Arizona Ice and Cold Storage Company, Tucson, Arizona, appointment as director of the branch for the unexpired portion of the term ending December 31, 1937.

Mr. Sam Taub, J. N. Taub & Sons, Houston, Texas, was reappointed a director of the Houston branch for the three year term ending December 31, 1939.

It was decided to tender to Mr. H. Renfert, Renfert-Helmbrecht Company, Galveston, Texas, appointment as a director of the Houston branch for the unexpired portion of the term ending December 31, 1938.

It was decided to tender to Mr. Edwin F. Flato, President, Corpus Christi Hardware Company, Corpus Christi, Texas, appointment as director of the San Antonio branch for the three year term ending December 31, 1939.

Mr. Andrew P. Welch, Chairman, Welch & Company, San Francisco, California, was appointed as Deputy Chairman of the Federal Reserve Bank of San Francisco for the year 1937.

It was decided to tender to Mr. W. S. Rosecrans, Los Angeles, California, appointment as director of the Los Angeles branch for the two year term ending December 31, 1938.

Mr. Davis was authorized to contact Mr. William A. Schoenfeld, Dean of the State Agricultural College, Corvallis, Oregon, in order to ascertain his availability for appointment as a director of the Portland branch, and, in his (Mr. Davis') discretion, to tender him appointment as a director of the branch for the two year term ending December 31, 1938.

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It was decided to tender to Mr. John Thomas, Jerome, Idaho, appointment as director of the Salt Lake City branch for the two year term ending December 31, 1938, and to Mr. Herbert S. Auerbach, President and General Manager, Auerbach Company, Salt Lake City, Utah, appointment as director of the branch for the unexpired portion of the term ending December 31, 1937.

It was decided to tender to Mr. John M. McGregor, Hooper, Washington, appointment as director of the Spokane branch for the two year term ending December 31, 1938.

It was decided to tender to Mr. U. M. Dickey, President, Consolidated Dairy Products Company, Seattle, Washington, appointment as director of the Seattle branch for the two year term ending December 31, 1938.

There followed a discussion of the procedure that should be followed during the coming year in the selection of individuals for appointment as Class C director and directors of branches of Federal reserve banks, and Mr. Broderick suggested that one of the members of the Personnel Committee be given the primary responsibility of directing the development, with the assistance of the staff, of the necessary information for the use of the Personnel Committee in making its recommendations to the Board.

At the conclusion of the discussion, Messrs. Davis and McKee were appointed to serve with Chairman Eccles as members of the Personnel Committee during the year 1937 and it was understood that Mr. Davis would assume primary responsibility for the development, with the assistance of the staff, of the necessary information for action by the Board on the appointment of Class C directors and directors of branches of Federal reserve banks.

It was also decided that the appointments of Class C directors which were to be tendered as a result of the actions taken by the Board yesterday and today would be tendered by members of the Board and that appointments as directors of branches would be tendered through the Chairmen or Deputy Chairmen at the respective Federal reserve banks.

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At this point Messrs. Thurston and Paulger 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 28, 1936, were approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Telegram to Mr. Young, Secretary of the Federal Reserve Bank of Chicago, referring to the action taken at the meeting of the board of directors of the bank on December 17, 1936, and advising that the Board approves the establishment, without change, by the Chicago bank on that date of the rates of discount and purchase in its existing schedule. The telegram stated that in order to comply with the requirement of the statute it was assumed that the Chicago bank would again establish rates within fourteen days from December 17, 1936.

Approved unanimously.

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

"In accordance with the request contained in your letter of December 14, the Board of Governors has approved an increase from \$3,500 to \$4,000 as the maximum salary provided in your personnel classification plan for the position of Secretary to the President.

"It will be appreciated if you will forward a revised Form A page covering this position at your early convenience."

Approved unanimously.

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

"In accordance with the request contained in your letter of December 14, the Board has approved, effective January 1, 1937, the payment of a salary of \$1,320 per annum, or \$120 in excess of the maximum provided in the personnel classification plan to each of four messengers in the City Collection Division of your bank, namely Messrs. Coleman, Leonard, McCabe and O'Leary."

Approved unanimously.

Letter to Mr. Sinclair, President of the Federal Reserve Bank of Philadelphia, reading as follows:

"Referring to your letter of December 17, the Board, for the reasons set forth therein, has approved a salary, effective January 1, 1937, of \$4,800 per annum for Mr. William D. Cobb, Head of your Transit Department, which salary is \$300 in excess of the maximum set forth in your personnel classification plan."

Approved unanimously.

Memorandum dated December 19, 1936, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated December 15, 1936, from Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, which requested approval of changes in the current personnel classification plan of the bank to provide for the creation of two new positions in the Personnel Maintenance Department of the bank. The memorandum stated that the proposed changes had been reviewed and recommended that they be approved.

Approved unanimously.

Telegram to Mr. Geery, Federal Reserve Agent at the Federal Reserve Bank of Minneapolis, stating that, subject to the condition set forth in the telegram, the Board of Governors of the Federal Reserve

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System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the "Northwest Bancorporation", Minneapolis, Minnesota, entitling such organization to vote the stock which it owns or controls of the following banks:

- "First and American National Bank of Duluth", Duluth, Minnesota,
- "The Security National Bank and Trust Company of Faribault", Faribault, Minnesota,
- "Fergus Falls National Bank and Trust Company", Fergus Falls, Minnesota,
- "The Hastings National Bank", Hastings, Minnesota,
- "Security National Bank of Hopkins", Hopkins, Minnesota,
- "The Northwestern National Bank of Litchfield", Litchfield, Minnesota,
- "The National Citizens Bank of Mankato", Mankato, Minnesota,
- "Northwestern National Bank and Trust Company of Minneapolis", Minneapolis, Minnesota,
- "Midland National Bank and Trust Company of Minneapolis", Minneapolis, Minnesota,
- "The Third Northwestern National Bank of Minneapolis", Minneapolis, Minnesota,
- "The Fourth Northwestern National Bank of Minneapolis", Minneapolis, Minnesota,
- "The Fifth Northwestern National Bank of Minneapolis", Minneapolis, Minnesota,
- "First National Bank in Moorhead", Moorhead, Minnesota,
- "The First National Bank of Red Wing", Red Wing, Minnesota,
- "Stockyards National Bank of South St. Paul", South St. Paul, Minnesota,
- "First National Bank in Two Harbors", Two Harbors, Minnesota,
- "The First National Bank of Winona", Winona, Minnesota,
- "The Dakota National Bank & Trust Company of Bismarck", Bismarck, North Dakota,
- "The Grafton National Bank", Grafton, North Dakota,
- "The American National Bank of Valley City", Valley City, North Dakota,
- "The Citizens National Bank of Wahpeton", Wahpeton, North Dakota,
- "The First Citizens National Bank of Watertown", Watertown, South Dakota,
- "The Great Falls National Bank", Great Falls, Montana,
- "The Continental National Bank of Harlowton", Harlowton, Montana,

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"The First National Bank of Grantsburg", Grantsburg, Wisconsin,
 "The National Bank of LaCrosse", LaCrosse, Wisconsin,
 "The First National Bank of Denison", Denison, Iowa,
 "The First National Bank of Mason City", Mason City, Iowa,
 "The Live Stock National Bank of Sioux City", Sioux City, Iowa,
 "The First National Bank of Fairbury", Fairbury, Nebraska,
 "The Hastings National Bank", Hastings, Nebraska,
 "The United States National Bank of Omaha", Omaha, Nebraska,
 "Security Bank and Trust Company of Owatonna", Owatonna,
 Minnesota,

at all meetings of shareholders of such banks. The condition contained in the telegram upon which the permit was authorized was as follows:

"Prior to issuance of general voting permit authorized herein, applicant shall execute and deliver to you in duplicate an agreement in form accompanying Board's letter X-9385, except that paragraphs numbered 4 and 5 shall be omitted and remaining numbered paragraphs appropriately re-numbered, that word 'State' shall be omitted from paragraph numbered 2, and that paragraph letter (D) may be omitted if it is objectionable to applicant."

The telegram also requested the Federal reserve agent, upon issuance of the general voting permit authorized therein, to forward to the Federal Reserve Banks of Chicago and Kansas City copies of the permit and of the agreement executed by the applicant pursuant to the condition prescribed above.

Approved unanimously.

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

"This refers to your letter of October 16, 1936, relating to the question whether the Board's waiver of the requirement for reports of affiliates is applicable to certain affiliates of The New England Trust Company, Boston, Massachusetts.

"It is understood that such affiliates are business trusts organized to own and operate real estate acquired upon the foreclosure of mortgages; that The New England Trust Company owns or controls in various fiduciary capacities all or a majority of the shares of each of such organizations; that

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"the trust company does not own any of the shares in its individual capacity; and that in each instance all of the trustees are directors of the trust company.

"You suggest that the following provision of the Board's waiver of requirement for reports of affiliates may be applicable:

'The Board of Governors of the Federal Reserve System also waives the requirement for the submission of reports of affiliates in all cases where the affiliate relationship is based solely on ownership or control of any voting shares of the affiliate by a member bank as executor, administrator, trustee, receiver, agent, depository, or in any other fiduciary capacity, except where such shares are held for the benefit of all or a majority of the stockholders of such member banks.'

"The Board is of the opinion that, since, under section 2(b) of the Banking Act of 1933, a business trust is an affiliate of a member bank if a majority of its trustees are directors of the bank and even though the bank does not own or control any shares of the business trust, the affiliate relationships in the case under consideration are not based solely on the ownership or control of voting shares of the affiliate by the bank in fiduciary capacities. Accordingly, the requirement for reports of such affiliates is not waived under the foregoing provisions of the Board's waiver and reports of such affiliates should be obtained and published unless they are waived under other provisions of the Board's waiver.

"It is noted from the report of examination of The New England Trust Company as of July 14, 1936, that two of the organizations in question were not indebted to the trust company on that date and it appears probable that the requirement for reports of such organizations is waived by other provisions of the waiver. However, all of such organizations should be reported on Schedule O of the bank's reports of condition, even though it may not be necessary to obtain and publish reports of all of them. In the circumstances, the Board will not require the publication of reports of such affiliates as of previous call dates."

Approved unanimously.

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

"This refers to your letter of December 9, 1936, regarding a question submitted by the Ramsey County National

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"Bank of Devils Lake, Devils Lake, North Dakota, with reference to the maturity date of a time certificate of deposit.

"The question presented by the national bank is whether a time certificate of deposit falling due on a Sunday or holiday should be renewed the day before or the day after the holiday. In response to this question, your Counsel has expressed the opinion that a time certificate of deposit should be renewed on and as of the day it legally becomes due and payable as determined by the law applicable at the place of payment. You are advised that the Board finds no reason to differ from the opinion expressed by your Counsel with reference to this question.

"On the last page of his letter to you dated December 7, 1936, your Counsel presented the additional question as to whether a member bank may, without complying with the requirements of section 4(d) of Regulation Q, pay a time certificate of deposit on the date specified in the instrument in a case where such date is a Saturday or a Friday which is a legal holiday and, under the applicable State law, the certificate is payable on the next succeeding business day after the date specified therein.

"It does not appear that the question presented by your Counsel has arisen in an actual case and it is believed to be preferable for the Board of Governors not to rule upon the question at this time. You will understand, of course, that it would not be practicable or desirable for the Board to undertake to pass upon questions of a hypothetical or abstract character not arising upon the facts of actual cases. If, however, the above question should be presented in an actual case or if you have reason to believe it might become material in a particular case, the Board would be glad to give it consideration, upon receipt of a request for a ruling accompanied by a full statement of the facts involved."

Approved unanimously.

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

"Under date of October 30, 1936, there was sent to you a copy of a statement prepared by the Board with respect to foreign relationships of Federal reserve banks and you were advised that the Board had requested that the statement be placed on the program for consideration at the next Presidents' Conference. The Board is now advised that the Conference considered the various phases of the procedure suggested in the memorandum and that the Presidents had no changes or

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"modifications to suggest.

"Accordingly, the Board has approved the statement of procedure in the form attached to this letter and requests that it be followed in the future by the Federal reserve banks in connection with all foreign relationships of such banks. The memorandum is in substantially the same form as the memorandum sent to you with my letter of October 30, 1936, only such changes in phraseology having been made as were necessary to make the procedure fully effective."

Approved unanimously, with the understanding that a similar letter would be sent to the Presidents of all other Federal reserve banks.

The statement referred to in the above letter read as follows:

"The Board of Governors has a wide range of responsibility for monetary developments in this country in addition to its duty to exercise special supervision over foreign relationships of Federal reserve banks. To meet its responsibilities it must of necessity, among other things, have complete and current information as early as available with respect to all foreign relationships of Federal reserve banks which may eventuate in some action. Such action may take the form of establishing an account at a Reserve bank or the appointment of a correspondent or the establishment of an agency in a foreign country by a Federal reserve bank; of handling a fund for a foreign correspondent; of a loan on gold, or of an agreement to purchase bills in foreign countries; or of other transactions that need not be enumerated.

"Thus, the Board's duties involve broader questions than mere technical compliance with particular provisions of law. Supervision by the Board of the foreign relationships of the Federal reserve banks involves close cooperation by the banks with the Board with constant recognition of the responsibilities of the Board. The question in each case should not be decided upon narrow grounds such as, for example, whether a certain act does or does not amount to a negotiation and consequently requires prior permission of the Board, but rather whether knowledge of all the facts and circumstances with respect to the particular act or correspondence would be helpful to the Board in the discharge of its responsibilities. Full understanding and cooperation between the Board and the banks upon the basis of this broad principle is essential in the public interest.

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"Fiscal agency operations.

"The Board's relation to the operations of the Federal reserve banks as fiscal agents of the United States can best be worked out between the Board and the Treasury on the basis of friendly cooperation, and, therefore, procedure as to such operations is not dealt with in this memorandum.

"Specific situations.

"With the broad principle stated in the introduction to this memorandum as a guide, careful consideration has been given to the question of working out a proper and satisfactory procedure in connection with the establishment and maintenance of foreign relationships by Federal reserve banks with a view to enabling the Board to meet its responsibilities fully and at the same time interfere as little as possible with the normal operations of Federal reserve banks. Accordingly, the following course of procedure has been adopted.

"1. Foreign visitors.

"The difficulty in attempting always to anticipate the nature of a forthcoming discussion or conference with a visitor from a foreign country is understood. It is recognized that a discussion or conference which had been expected to be wholly general in its nature may turn into one contemplating eventual action of some sort, and that awkwardness may result if officers of Federal reserve banks in the midst of a discussion find that they must obtain permission of the Board before proceeding further. This difficulty should be avoided if foreign banks and bankers have a clear understanding of the relationships between, and the responsibilities of, the Federal reserve banks and the Board of Governors.

"Before arranging a conference which may involve an agreement, understanding or negotiations with a person who may represent a foreign bank, banker or Government permission should be obtained from the Board; and as soon as a Federal reserve bank learns that such a person is planning to visit the bank it should notify the Board and give it as much information as it can obtain as to the occasion and purposes of the visit. Unless it is known that the visitor has been informed as to the relations of the Federal reserve banks and the Board the Federal reserve bank should advise him as soon as practicable after learning of his proposed visit.

"If a visit from such a person may involve discussions leading to an agreement or commitment with respect to a particular transaction on the part of a Federal reserve bank, or if in its progress it so develops, permission of the Board

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"should be obtained before proceeding further to conduct such negotiations, unless such negotiations are covered by permission previously granted.

"As soon as possible such Federal reserve bank should file a full report in writing, in accordance with the general principle outlined above.

"2. Negotiations and transactions for which Board grants blanket permission.

"The Board grants blanket permission to Federal reserve banks (subject to all the conditions set out in this memorandum) as follows:

a. To establish and open 'one way' accounts for foreign central banks (that is to say, accounts involving deposits with a Federal reserve bank but not involving the establishment or maintenance of any deposits for a Federal reserve bank), but not to extend any credit or enter into any other transaction for which specific permission would be necessary, without first obtaining such permission, provided:

(1) That such account is subject to termination at the request of the Board;

(2) That the agreement be in accordance with a standardized form, such as some particular agreement approved by the Board;

(3) That, if there be any question as to whether the foreign bank is in fact a foreign central bank, the Federal reserve bank in question will confer with the Board upon such subject before proceeding further;

(4) That copies of all correspondence contemplating or relating to the establishment and maintenance of such accounts be currently and promptly forwarded to the Board, it being understood, however, that correspondence relating to routine transactions in an account after it has been established need not be sent to the Board.

b. Subject to the applicable conditions set forth in paragraph 'a', to purchase or sell gold directly from or to a foreign bank or banker.

c. Subject to the applicable conditions set forth in paragraph 'a', to earmark gold or silver, title to which is already held by a foreign bank or banker, for the account of such bank or banker.

"3. Negotiations and transactions for which Federal reserve banks are required to obtain prior specific permission from the Board.

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"With respect to the following classes of transactions, except as otherwise authorized, no commitment, direct or contingent, should be made to any foreign bank or banker and no steps should be taken which may be expected to lead to a commitment, without first submitting full information regarding the proposed transaction to the Board for its consideration and obtaining its permission, regardless of whether other relationships have previously been established with the permission or approval of the Board. In this connection, a Federal reserve bank should, as quickly as possible after the receipt of any communication relating to such transactions, furnish copies thereof to the Board for its information and obtain permission from the Board to proceed with the negotiations or to enter into the agreement, as the case may be.

- a. The extension of credit in any form by a Federal reserve bank;
- b. The creation of any deposit by a Federal reserve bank in a foreign country and the disposition of such deposits;
- c. The purchase or sale by a Federal reserve bank of bills from or to a foreign bank or banker, or in a foreign country;
- d. The purchase by a Federal reserve bank of bills or securities in this country for the account of a foreign bank or banker with an agreement by the reserve bank to repurchase or with a guarantee, indorsement or other liability of such Federal reserve bank;
- e. The earmarking of gold in a foreign country for a Federal reserve bank.

"4. Other situations.

"With respect to any matter not covered in the grant of blanket authority or if there be any doubt as to whether such matter is covered in such grant of blanket authority, the procedure applicable to transactions referred to in paragraph 3 should be followed."

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

"There is being sent to you today a separate letter inclosing a copy of the statement of procedure with respect to foreign relationships of Federal reserve banks as approved by the Board of Governors of the Federal Reserve System.

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"It will be recalled that when this statement was under discussion at the meeting of the Board on October 30, 1936, at which you were present, you expressed the opinion that the senior officers of the more important central banks are familiar with the important changes in the Federal Reserve System effected by the Banking Acts of 1933 and 1935 and that, therefore, it was unlikely that they would undertake to open any negotiations or have any discussions with the Federal Reserve Bank of New York without first presenting the matter in such a way as to allow your bank time to obtain permission from the Board to carry on the necessary discussions or to conduct negotiations. In connection with a discussion of the best method to be used in advising the smaller central banks of the existing relationships between the Federal reserve banks and the Board, you stated that you would be agreeable to the Federal Reserve Bank of New York advising such banks of the existing relationships and that you felt that, inasmuch as it was contemplated that the agreements now in effect covering correspondent relationships between foreign central banks and the Federal Reserve Bank of New York would be revised in the light of existing conditions and would be reviewed periodically in the future, the desirable course would be to call attention to the existing relationships between the Board and the Federal reserve banks when writing to the foreign central banks with respect to the revision of the correspondent agreements.

"The Board will appreciate it if the Federal Reserve Bank of New York will proceed in accordance with your suggestion in this matter, submitting to the Board for approval the revised agreement or agreements proposed to be entered into with foreign central banks, and keeping it advised as provided in the statement of procedure referred to above."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Morley
Secretary.

Approved:

W. S. Lewis
Chairman.