A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, January 12, 1937, at 11:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Clayton, Assistant to the Chairman

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on January 11, 1937, were approved unanimously.

Bond, in the amount of $100,000, executed under date of January 4, 1937, by Mr. A. O. Stewart as Federal Reserve Agent at the Federal Reserve Bank of San Francisco.

Approved unanimously.

Memorandum dated January 5, 1937, from Mr. Paulger, Chief of the Division of Examinations, recommending, for the reason stated in the memorandum, that the headquarters of Mr. Julius B. Richner, Assistant Federal Reserve Examiner, be changed from Washington, D. C., to Louisville, Kentucky, effective as of January 5, 1937.

Approved unanimously.

Telegram to Mr. McCravey, Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta, reading as follows:

"Referring to your January 6 letter, Board approves temporary appointment of D. E. Moncrief as alternate assistant Federal Reserve Agent at your bank with the understanding that before such approval becomes effective he will be placed on the payroll of the Federal Reserve Agent, and thereafter will be solely responsible to him or, during a vacancy in the office of Agent, to the Board of Governors for the proper performance of his duties. When not engaged in the performance of his duties as Alternate Assistant Federal Reserve Agent he may with the approval of the Agent (or, during a vacancy in the office of Agent, of the Assistant Agent) and the President perform such work for Federal Reserve bank as will not be inconsistent with his duties as Alternate Assistant Federal Reserve Agent. Mr. Moncrief should execute usual oath of office and surety bond in the amount of $50,000 as Alternate Assistant Federal Reserve Agent. Please forward such oath and bond to Board but, before doing so, your counsel should be satisfied that the bond complies with rules printed on reverse side of bond form 182. Mr. Moncrief should not enter upon the performance of his duties as Alternate Assistant Federal Reserve Agent until you have received advice of Board's approval of his bond."

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 6, 1937, and, in accordance with your request, the Board approves the use of the employees listed to lend clerical assistance to your regular examiners in the examinations of State member banks, and the designations of such employees as assistants to examiners. It is understood, of course, that none of these employees will be transferred permanently to examining work without Board's approval."

Approved unanimously.

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

"This refers to your letter of October 23, with regard to agreements made by the First State Bank of Loraine, Texas, in connection with advances made to that bank in 1932 and 1933 by Mr. C. H. Lasky, its former president, which were referred to in the report of the examination made of that bank as of April 13, 1936.

"It is noted that counsel for your bank has taken the position that, based upon the provisions of the agreements, the bank is under a definite liability for the repayment of the unpaid portion of the advances, but that, in view of the ambiguities existing in the agreements, it is possible that oral testimony might be permitted to explain that it was the intention of the parties that the bank's only liability is to convey proper title to the assets pledged as security for the advances in the event that the advances are not paid in full. The Board's counsel concurs in these views.

"It is understood that the assets pledged against the two advances had been charged off the bank's books, that any collections therefrom were to be credited to the account of Mr. Lasky and applied against the sum advanced by him to the bank, and that in the event the bank failed to pay the advances the charged off assets were to become the property of Mr. Lasky in fee simple. It is understood also that, under the terms of a subsequent agreement executed by Mr. Lasky, all of his rights against the assets referred to were declared to be junior to the claims of the Reconstruction Finance Corporation or other holder of Series A capital debentures issued by the bank, $25,000 of which appear to be outstanding. It appears further that on the date the bank was examined the balance due on the two advances amounted to $22,365.87, exclusive of interest, and that the new president of the bank has advised you that no interest has as yet been paid and that, as a matter of fact, Mr. Lasky verbally told the directors of the bank that he did not expect any interest.

"The Board feels that condition reports of State bank members should disclose all of the liabilities of such banks. In the present case, however, the circumstances surrounding the agreements which gave rise to the apparent liability of the First State Bank of Loraine, Texas, are such as to make it doubtful whether the bank has any liability other than to convey proper title to the collateral pledged against the loans made to the bank by its former president. This collateral, as previously stated, has been charged off and does not appear among the bank's assets. The Board does not feel warranted, therefore, in requiring the bank to show a liability on the advances until such time as further evidence is

"produced to the effect that a liability does in fact exist. It would seem, however, that the nature of the liability of the bank, if any, under the agreement should be definitely determined. Accordingly, it is suggested that in connection with the examinations of the bank inquiry be made as to whether any additional facts with respect to these advances have come to light and that the examination reports contain a summary of any new information obtained. It is assumed that you will request the bank to keep you advised as to any developments in this situation and that, in turn, you will keep the Board advised of any such developments."

Approved unanimously.

Letter to Mr. Paul P. Gourrich, Director, Research Division, Securities and Exchange Commission, reading as follows:

"This refers to your letter of November 21, 1936 addressed to Chairman Eccles, in which you say that in the course of the study of investment trusts and investment companies which your Commission is conducting pursuant to section 30 of the Public Utility Act of 1935, you would like to know the extent to which the divorcement of commercial banks from investment trusts and investment companies is compelled as a matter of law by the Banking Act of 1933.

"An examination of the Board's files indicates that the provisions of law in which you would be interested are:

"Section 20 of the Banking Act of 1933, which makes it unlawful for a member bank to be an 'affiliate' of any organization engaged principally in underwriting or distributing securities. ('Affiliate' is defined in section 2(b) of the Banking Act of 1933, and includes affiliation by ownership, or by common ownership or control of stock, or by a majority of interlocking directors.)

"Section 5144 of the Revised Statutes of the United States (applicable to national banks, and made applicable to State member banks by section 9 of the Federal Reserve Act), which deals with 'holding company affiliates' of banks and which provides (subsection (e)) that a holding company affiliate of a bank, in applying for a permit to vote the stock of such bank, must, among other things, show that it does not and agree that it will not, or agree that it will cease within a prescribed time to own or have any interest in an organization engaged principally in underwriting or distributing securities.

"Section 32 of the Banking Act of 1933, which makes it unlawful for a director, officer or employee of a member bank to be a director, officer, employee or partner of an organization primarily engaged in underwriting or distributing securities.

"Section 5139 of the Revised Statutes (which is applicable to national banks) and paragraph 20 of section 9 of the Federal Reserve Act (which is the corresponding provision applicable to State member banks), which make it unlawful for the certificate of stock of a member bank to represent the stock of any other corporation, with certain exceptions not here material.

"For ready reference, copies of these statutory provisions are inclosed.

"It will be observed that with the exception of section 5139 of the Revised Statutes (and the corresponding provision in section 9 of the Federal Reserve Act), all of these provisions refer to what may be called 'securities companies', that is, companies engaged primarily in the underwriting, flotation, distribution and sale of securities. Therefore, they would require the termination of an affiliation such as that to which you refer only if the investment trusts were 'securities companies' within the definition contained in the law.

"Of course, if the affiliation between the investment trust and the bank had been the result of common stock ownership resulting from the stock of both organizations being represented by one certificate, section 5139 of the Revised Statutes would have been applicable. However, this section would, of course, not necessarily have caused a termination of the affiliation since the same persons might, without violating the law, continue to own the stock of both organizations after separate certificates were issued.

"Furthermore, an affiliation resulting from any cause would not be prohibited by section 20 of the Banking Act of 1933 or section 5144 of the Revised Statutes unless the investment trust were a 'securities company' of the kind referred to above.

"Similarly, the services of a common director, officer or employee would not be prohibited by section 32, unless the investment trust were primarily engaged in theflotation, underwriting, public sale, or distribution of securities.

"In short, except for the provisions affecting the actual stock certificates, none of the above provisions would require

"the divorcement of an affiliation between an investment trust and a member bank unless the investment trust were engaged in activities other than the mere investment and reinvestment of its assets. In this connection, some investment trusts may be engaged in underwriting and distributing securities, and some investment trusts may be so actively engaged in selling their own shares as to be within the provisions of section 32 or the provisions of section 20.

"Incidentally, prior to its amendment by the Banking Act of 1935, section 32 of the Banking Act of 1933 was somewhat broader in its application, and covered an investment trust which was engaged actively in purchasing and selling securities in its portfolio and which was not engaged merely in 'investing and reinvesting'. The section in its original form therefore affected some relationships which it does not now affect.

"There are certain other provisions which might have an indirect bearing upon the matter since they might possibly have influenced the decision of the management of a bank or trust company as to continuing an affiliation. However, these provisions are not of the kind which you describe in your letter since they would not have compelled a divorcement. These provisions are: provisions for the examination of affiliates of member banks, both State and national, and the publication of reports of condition of such affiliates; section 23A of the Federal Reserve Act imposing certain restrictions upon loans to and investments in affiliates by member banks; and section 5136 of the Revised Statutes, and a corresponding provision in section 9 of the Federal Reserve Act, making it unlawful for member banks to purchase stock.

"With regard to your request for any memorandum or opinion on this problem which has been prepared by counsel for the Board, the Board's files contain correspondence and memoranda regarding the facts of particular cases, but it is believed that these would not be of assistance to you. However, we would like to give you any information which would be of assistance to you in this connection and if after reading this letter you would like to have a representative of your organization discuss the matter informally with a representative of the Board, we would be glad to have him do so."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: M S Eccles
Chairman.

O Essen Morrill
Secretary.