

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, January 28, 1937, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
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. Smead, Chief of the Division of Bank Operations
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Dreibelbis, Assistant General Counsel

Mr. Ransom stated that Representative Spence of Kentucky had advised him recently over the telephone that he had received a number of inquiries with respect to the definition of "interest" contained in subsection 1(f) of the Board's Regulation Q, Payment of Interest on Deposits, which will become effective on February 1, 1937, and that he would like to call on Mr. Ransom to discuss the definition with him. After several attempts, Mr. Ransom said, to find a time which would be mutually convenient, he had suggested over the telephone that he call on Representative Spence at his office and that yesterday, with Mr. Dreibelbis, he had gone to the Congressman's office and found that the latter had arranged for an informal meeting of members of the Banking and Currency Committee of the House of Representatives and several

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other Representatives who also had received inquiries regarding the matter. Mr. Ransom said that he had explained the reason for the adoption of the definition and the fact that the Board had issued the regulation in view of the provisions of the law and existing banking practices which, in the opinion of the Board, made it inevitable that the regulation prohibit the absorption of exchange and collection charges, as an indirect means of payment of interest on demand deposits. The Representatives present, Mr. Ransom added, expressed appreciation of the explanation offered and some expressed the opinion that the Board had taken the correct position in the matter while others felt that, if this was so, the law was not what they intended it to be.

Mr. Ransom also said that the Representatives had requested that they be furnished with such information as would enable them to answer the inquiries which they had received and that he would suggest that, if agreeable to the Board, the statement with respect to the definition of "interest" in Regulation Q, which had been prepared for publication in the February issue of the Federal Reserve Bulletin be mimeographed, with the understanding that copies thereof would be sent by him to the members of the Banking and Currency Committee of the House of Representatives and other Representatives and Senators who had an interest in the matter.

Mr. Ransom's suggestion was approved unanimously and it was understood that copies of the statement would be sent in reply to inquiries received by the Board on the subject.

Chairman Eccles stated that yesterday afternoon at a conference which he had arranged with the Secretary of the Treasury and which was also attended by Messrs. Wayne C. Taylor, Assistant Secretary, D. W. Bell, Director of the Budget, Cyril B. Upham, Assistant

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to the Secretary, George C. Haas, Director of the Division of Research and Statistics of the Treasury, and Messrs. Harry D. White, Lawrence H. Seltzer and Henry C. Murphy of the Division of Research and Statistics of the Treasury, he and Mr. Goldenweiser had outlined, in much the same manner as the subject had been presented to the Presidents of the Federal reserve banks on January 26, 1937, the factors involved in the consideration of the question whether action should be taken by the System to absorb a portion of the existing excess reserves of member banks, and what the effect would be of a 33 1/3% increase in the requirements as to reserves of member banks. The Chairman reviewed fully the points covered during the discussion of the matter with the Secretary of the Treasury and said that, while the Secretary expressed no opinion as to what action should be taken by the Board, he had stated that so long as any change that might be made by the Board at this time was put into effect not later than the close of business February 27 in order that the market would have an opportunity to adjust itself to the increased requirements prior to the announcement of March 15 financing, he felt that the question of a change in reserve requirements should be considered by the Board entirely independently of Treasury financing.

The Chairman then stated that following the conference above referred to he and the Secretary of the Treasury called on the President and the problem before the Board was reviewed briefly for his information. Chairman Eccles related fully the aspects of the matter

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which had been discussed with the President including the fact that the Board and its staff had given careful consideration to the whole matter for a period of months and that it had been discussed with the Presidents of the Federal reserve banks. The President indicated, Chairman Eccles said, that the responsibility for a decision in the matter was with the Board, and that should the Board decide to increase reserve requirements he would have no objection thereto. Upon his return from the White House, Chairman Eccles stated, he had related to Mr. McKee, who had planned to be away from Washington today and tomorrow, the details of his conference with the Secretary of the Treasury and the President; that Mr. McKee had stated that he would be back in the office on Saturday, January 30, 1937; and had suggested that action be deferred until that date with the understanding that the members of the Board consider the matter carefully in the interim and be prepared to act at a meeting on the morning of January 30, 1937, at 10:30 a.m. The members of the Board agreed to the program suggested by Chairman Eccles.

There followed a general discussion of various phases of the problem of excess reserves of member banks, during which Chairman Eccles stated that he had discussed with Mr. McKee the advisability, if the Board decided on Saturday to increase reserve requirements to the full extent permitted by law, of making half the increase effective at the end of February, and the other half effective on the first of April, or perhaps the first of May. The suggestion was

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discussed and it was pointed out that such a division of the increase would accomplish everything from a credit control standpoint that might be expected from making the whole increase effective at one time and would enable the market to adjust itself to the increase in a more orderly way.

Chairman Eccles then stated that, in view of existing circumstances, he felt it would be desirable for the Board to withhold at least until next week a decision on the question whether Regulation T, Extension and Maintenance of Credit by Brokers, Dealers and Members of National Securities Exchanges, should be amended so as to eliminate in-and-out-trading on national securities exchanges or whether the New York Stock Exchange should be afforded an opportunity to correct the practice on that exchange by an amendment to its rules.

After a discussion of the matter it was agreed that it should be given further consideration at the meeting of the Board tomorrow morning.

At this point Messrs. Thurston, Smead, Goldenweiser and Dreibelbis 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 January 27, 1937, were approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without

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change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

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

"Reference is made to your letter of January 20 in regard to the resolution adopted by the board of directors of your bank for the payment to the Retirement System of \$3,750 for the purpose of supplementing the retirement allowance of Assistant Federal Reserve Agent Charles F. Gettemy.

"Under the provisions of the Board's letter, X-9405, of December 27, 1935, the maximum payment that could be made to the Retirement System for the benefit of Mr. Gettemy is one-half of his current salary of \$3,600. Since, however, Mr. Gettemy received an annual salary of \$7,500 for a number of years, ended December 31, 1936, the Board will interpose no objection to the payment of one-half of such salary, or \$3,750, to the Retirement System as proposed by the board of directors of your bank to supplement the regular retirement allowance to which Mr. Gettemy is entitled under the rules and regulations of the Retirement System."

Approved unanimously.

Memorandum dated January 23, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated January 18, from Mr. H. P. Preston, First Vice President of the Federal Reserve Bank of Chicago, which requested approval of changes in the personnel classification plan of the bank and its Detroit branch to provide for a change in title for the position of "Assistant Bond Teller" to "Bond Teller" at the head office, and for the creation of the position of "Janitor" at the Detroit branch. The memorandum stated that there appeared to be no objection to the proposed changes and recommended

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that they be approved.

Approved unanimously.

Letter to the board of directors of the "Tenafly Trust Company", Tenafly, New Jersey, stating 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 approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock of the Federal Reserve Bank of New York:

- "7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "8. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$26,760 as shown in the report of examination of such bank as of December 3, 1936, made by an examiner for the Federal Reserve Bank of New York."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Tenafly Trust Company', Tenafly, New Jersey, for membership in the Federal Reserve System, subject to the conditions prescribed in the inclosed letter which you are requested to forward to the board of directors of the institution. Two copies of such letter are also inclosed, one of which is for your files and the other of which you are requested to forward to the Commissioner of Banking and Insurance for the State of New Jersey for his information.

"It will be noted that the Board has not prescribed the special condition of membership which has been recommended by your board of directors covering the future exercise by the bank of certain unusual powers. It is understood that the bank is not now exercising any unusual powers and the Board has recently taken the position that in cases

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"of this kind, such a condition is unnecessary inasmuch as the exercise of such powers would be covered by condition of membership numbered 1. In lieu, therefore, of prescribing a special condition, the letter to the bank calls particular attention to the necessity of obtaining the Board's permission, under condition numbered 1, before the bank may exercise any such unusual powers after it is admitted to membership."

Letter to the board of directors of the "Fulton State Bank", Fulton, South Dakota, stating that, subject to the conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock of the Federal Reserve Bank of Minneapolis:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership, such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses of \$504.72, as shown in the report of examination of such bank as of December 12, 1936, made by an examiner for the Federal Reserve Bank of Minneapolis."

Approved unanimously for transmission to the applicant bank through the Federal Reserve Bank of Minneapolis.

Telegram to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with your recommendation Board extends to April 30, 1937 time within which 'Monongahela Trust Company', Homestead, Pennsylvania, may accomplish membership."

Approved unanimously.

Letter to Mr. McKinney, President of the Federal Reserve Bank

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of Dallas, reading as follows:

"Reference is made to your letter of January 13, 1937, requesting advice as to whether the three affidavits inclosed with your letter will be accepted by the Board as satisfactory evidence that the population of the town of Ennis, Texas, although shown as 7,069 in the 1930 Census, is now less than 6,000, and that the Ennis State Bank, therefore, would be eligible for membership with a capital of more than \$50,000 but less than \$100,000.

"The affidavits submitted with your letter are identical in form and state simply that to the best knowledge and belief of the mayor, the assistant postmaster, and the principal of the public schools, respectively, the population of Ennis does not exceed 6,000 people. In this connection your attention is called to the Board's letter of September 5, 1933, X-7578, transmitting to all Federal Reserve Agents for their guidance in similar circumstances, a copy of a telegram regarding the type of information to be submitted in such cases.

"It has been noted that, according to your understanding, affidavits similar to those inclosed with your letter were furnished the Comptroller of the Currency in 1933 and were the basis for the chartering of a national bank in Ennis organized that year with a capital of only \$50,000. According to information received from the office of the Comptroller of the Currency, however, the affidavits submitted in 1933 were supported by statements of the reasons for the decline in the population since 1930 and by data which served as the basis for the estimates of the population made in 1933. As indicated in the Board's telegram, X-7578-a, affidavits submitted to the Board should be accompanied by such data.

"Inasmuch as the bank is contemplating making application for membership and has a capital of \$135,000, it is suggested that if a reduction in capital is made before the Board passes upon the question of the eligibility of the bank with a capital of less than \$100,000, a reduction below \$100,000 be made only if there is no doubt that the population of the town is less than 6,000. It is assumed, of course, that no retirement of the capital debentures will be made which will reduce the capital below an amount which is considered altogether adequate in view of all of the circumstances."

Approved unanimously.

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Telegram to Mr. Stewart, Federal Reserve Agent at the Federal Reserve Bank of San Francisco, stating that, subject to the condition set forth in the telegram, the Board of Governors of the Federal Reserve System authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to "First Security Corporation of Ogden", Ogden, Utah, entitling such organization to vote the stock which it owns or controls of the "First National Bank of Salt Lake City", Salt Lake City, Utah, at all meetings of shareholders of such bank. The condition contained in the telegram upon which the permit was authorized was as follows:

"Prior to the issuance of the general voting permit authorized herein, applicant shall deliver to you in duplicate Exhibit L (F.R.B. Form P-3) executed by First Security Building and Loan Association, Pocatello, Idaho, and First National Building Company of Ogden, Ogden, Utah, and Exhibit N (F.R.B. Form P-4) executed by applicant and consented to by such corporations; or furnish assurances satisfactory to you that, within thirty days after the issuance of the general voting permit authorized herein, it will deliver such exhibits to you or furnish evidence in writing satisfactory to counsel for the Federal Reserve Bank of San Francisco that such exhibits are not required by the Board's Regulation P and the directions on the printed forms referred to."

The telegram stated also that it had been noted that in a letter to the Federal Reserve Bank of San Francisco dated November 20, 1936, the applicant had stated that, while it had executed the standard form of agreement required by the Board as a condition to the issuance of general voting permits, it understood that it had already provided in

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full for the requirements of paragraphs numbered 1 and 2 of such agreement; and that, in this connection, when the San Francisco bank advised the Board that in its opinion paragraphs numbered 1 and 2 do not apply as against this applicant, the Board would consider issuing a letter similar to that issued in the case of the Marine Bancorporation of Seattle, Washington.

Approved unanimously.

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

"In accordance with the recommendation contained in your letter of January 12, 1937, the Board extends to March 10, 1937, the time within which City Bank Farmers Trust Company, New York, New York, shall file the reports of its affiliates as of December 31, 1936."

Approved unanimously.

Letter to Mr. Harry L. Eckles, New Orleans, Louisiana, reading as follows:

"The Securities and Exchange Commission has referred to the Board your letter of January 5, 1937, regarding margin requirements on bona fide arbitrage transactions. For your convenience there is enclosed a copy of Regulation T which the Board has issued on the subject of margin requirements. Section 3(d) of this regulation deals with arbitrage accounts.

"You ask whether the simultaneous or nearly simultaneous purchase and sale of convertible or equivalent securities would constitute bona fide arbitrage. You are advised that such a purchase and sale would constitute a bona fide arbitrage transaction within the meaning of section 3(d) if the security purchased is exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into the security sold. For example, the security purchased might be a convertible bond or a convertible preferred stock or a right or warrant. However, the purchase of debentures or bonds and

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"the sale of other debentures or bonds of another series equally secured under the same indenture, or the purchase of one stock and the sale of stock of another issue sharing equally in assets or income, would not constitute such a bona fide arbitrage transaction unless the securities purchased were so exchangeable or convertible into the securities sold.

"You also ask whether the margin requirements specified for arbitrage accounts in the regulation would be complied with if there was a net credit balance in the account sufficient to cover complete liquidation of the account at any time. It should be understood, of course, that a broker may impose additional margin requirements upon an account because of a rule of an exchange of which he is a member, or for some other reason entirely independent of Regulation T; and the regulation would not prevent the imposition of any such additional requirement. However, the margin requirement of section 3(d) of Regulation T would be complied with if there was such a net credit balance in the arbitrage account sufficient to cover complete liquidation of the account."

Approved unanimously.

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

"This refers to your letter of November 20, 1936, with further reference to the purchase in 1935 of 'B' preferred stock in the Kearny National Bank, Kearny, New Jersey, by the Federal Trust Company, Newark, New Jersey, and its wholly owned affiliate, the Federal Securities Company.

"It appears from your letter that such purchases of stock were made to protect previous investments by the Federal Trust Company and the Federal Securities Company in the Kearny National Bank and to aid in the recapitalization of the national bank in order to avoid the possible closing of that bank at a time when banking and business conditions in the community were at a critical stage. It appears also that the amount invested in such class 'B' stock by the Federal Trust Company is the same as the assessment which it would have been called upon to pay as a stockholder of the national bank had the recapitalization plan not been accomplished.

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"The Board has noted that, in the opinion of your counsel, the purchase of such stock by the Federal Trust Company might be considered a violation of the law. While it appears that the acquisition of the stock may have been in violation of section 9 of the Federal Reserve Act and section 5136 of the Revised Statutes, the Board, in view of all the circumstances involved and your recommendation in the premises, will take no action with respect to the matter at this time, provided the Federal Trust Company will use its best efforts to dispose of the stock at the earliest practicable opportunity.

"With regard to the stock in the national bank which the Federal Securities Company has purchased, the Board has taken the position that such a transaction is at least contrary to the spirit and purpose of the applicable provisions of the law. Accordingly, the Board feels that the Federal Trust Company should cause the Federal Securities Company to dispose of the stock as soon as is reasonably practicable.

"Please advise the Federal Trust Company of the views of the Board as above expressed, and it will be appreciated if you will keep the Board informed as to the progress made by the bank and its affiliate looking toward the final disposition of such stock."

Approved unanimously.

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

"Referring your January 27 letter, Board has reviewed inclosed circular amending circular #856, with respect to charge for handling certain securities, and offers no objection to its issuance by your bank immediately to become effective February 1, 1937."

Approved unanimously.

Letter to Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of January 2 in regard to the Board's letter X-9729 of October 30, 1936, with respect to participation in, and support of, the activities of the American Institute of Banking by the Federal Reserve System.

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"In answer to your inquiry, if the arrangement set forth in the first paragraph on page 3 of the inclosure (X-9729-b) with the above-mentioned letter were adopted Federal Reserve banks would be authorized to pay transportation expenses only, not including meals, and to grant leave of absence with pay for such duration as may be necessary to enable officers and employees selected to attend the Graduate School of Banking to attend a two weeks session of the School. Accordingly, the Federal Reserve banks would not be authorized to refund the registration fee or dormitory and dining hall charges."

Approved unanimously.

Memorandum dated January 26, 1937, from Mr. Morrill recommending, with the concurrence of Mr. Paulger, Chief of the Division of Examinations, and Mr. Smead, Chief of the Division of Bank Operations, that Mr. H. O. Koppang, Federal Reserve Examiner, be assigned to the Secretary's Office for such period as may be necessary to assist Mr. Morrill in making the necessary arrangements for moving into the Board's new building, including the determination of the organization required for operating the building, the details of renovation of furniture and replacement of undesirable furniture and equipment, special wiring, etc., with the understanding that in this work the benefit of the advice of Mr. Myrick, Technical Assistant in the Division of Bank Operations, would be made available. The memorandum stated that Mr. Morrill would expect to initiate a special budget for expenses connected with the moving into the new building and to carry Mr. Koppang's salary on that budget during the period of his loan to the Secretary's Office, and that Mr. Koppang would be expected to prepare a comprehensive budget covering the cost of moving into the new

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building and the operation of the new building which would be submitted to the Board when the estimates are ready for that purpose.

Approved unanimously.

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

"Receipt is acknowledged of your letter of January 13, 1937, with further reference to the applicability of section 32 of the Banking Act of 1933, as amended, to the services of Mr. Robert Winthrop Kean as president and Director of Livingston National Bank, Livingston, New Jersey, and as partner in the firm of Kean, Taylor & Co., New York, New York.

"Your letter and the accompanying information and memorandum of counsel to your bank are to the effect that although the business transacted by the firm of the kind described in section 32 produced in the neighborhood of 19 per cent of total income during 1935 and the first eleven months of 1936, this figure represents unusual activity, resulting from the heavy volume of refunding operations during those years, this being the type of securities to which the firm largely confines its activities, and that the average of approximately 10 per cent for the longer period from 1930 to November 30, 1936, inclusive, (excluding 1931 when there was a net loss on this class of business) is more truly indicative of the nature of the business of the firm. Furthermore, as you point out, the above percentages are virtually the same as in the case of Carl Egner in which the Board recently found that section 32 was not applicable.

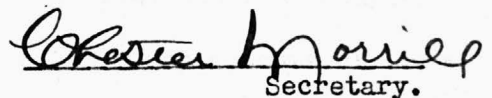
"In the circumstances, the Board sees no reason to differ with your opinion and that of counsel to your bank that section 32 should not be deemed to be now applicable to the services of Mr. Kean in the relationships described in the first paragraph of this letter."

Approved unanimously.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.