

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, February 25, 1937, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Carpenter, 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:

Telegrams to Mr. Leach, President of the Federal Reserve Bank of Richmond, and Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, stating that the Board approves the establishment without change by the respective banks today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to the postscript added to your letter of January 20 requesting advice as to whether reappointments and new oaths of office are required for the Assistant Federal Reserve Agent, and Alternate and Acting Assistant Federal Reserve Agents at your bank and branches.

"You were advised, in the Board's letter of September 30, 1936, of its approval of the appointments of Messrs. Parker and Hagedorn, as Assistant and Alternate Assistant Federal Reserve Agent, respectively, and advice of approval of Mr. Zehner's appointment as Alternate Assistant Federal Reserve Agent was contained in the Board's wire of October 19, 1936 to Mr. Parker. The Board, in approving these appointments, did not intend such approval to be for the remaining portion of the year 1936 only and, accordingly,

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"unless it is desired to make some change no further action with regard to the above employees appears to be required at this time.

"Assuming that there has been no change in the status of Acting Assistant Federal Reserve Agents at your branches, it will not be necessary to reappoint them or for them to execute new oaths of office at this time. In the Board's letter of December 24, 1936, to Mr. Martin approving the personnel classification plan, the persons acting for the Federal Reserve Agent in the issuance and retirement of Federal Reserve notes at the branches were referred to as Federal Reserve Agent's Representatives. You will be advised further with respect to this designation at an early date."

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"Reference is made to your letter of February 8, 1937, and the report of examination of 'The Peoples Bank', Pratt, Kansas, transmitted therewith. The report discloses that on April 4, 1936, without referring the matter to the Board for consideration under provisions of condition of membership numbered 10, applicable to the institution, the board of directors of the bank authorized a charge to undivided profits in the amount of \$16,000 to be expended for the purpose of remodeling the banking house, that \$15,000 had already been expended and charged to undivided profits at the time of the examination, and that the management did not consider that the expenditure constituted a violation of the condition inasmuch as it did not endanger the bank's solvency or liquidity and the amount was not capitalized. You state in your letter that if, under the circumstances, the approval of the Board is required your office recommends that such approval be granted.

"It appears that the bank is in sound asset condition, with no estimated losses and only a nominal amount of assets classified as doubtful in the current report of examination, is highly liquid, and is under capable management. It has been noted that the investment in banking house and furniture and fixtures amounts to only \$37,800 as compared with a net sound capital of \$163,500, and that the institution has no other real estate or potential other real estate. In view of the circumstances, and the recommendation of your office,

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"the Board will interpose no objection to the \$16,000 expenditure in question. In taking this action, however, the Board has not undertaken to define the technical question, which is involved in this case, of whether such an expenditure by a bank which is not capitalized represents an 'investment'."

Approved unanimously.

Letter to "The Citizens National Bank of Alton", Alton, Illinois, reading as follows:

"This refers to the resolution adopted on December 7, 1936, by the board of directors of your bank signifying the bank's desire to surrender its right to exercise trust powers which have been granted to it by the Federal Reserve Board.

"The Board of Governors of the Federal Reserve System understands that your bank has been discharged or otherwise properly relieved in accordance with the law of all of its duties as fiduciary. The Board, therefore, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is inclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k) of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers covered by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

Letter dated February 24, 1937, to the Presidents of all Federal reserve banks, reading as follows:

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"There will be forwarded to you under separate cover within a few days copies of the 'Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements', which have been rewritten to bring them up to date. One copy of the instructions is inclosed for your information.

"It will be noted that the principal change in the monthly report of earnings, Form 95, is the exclusion from miscellaneous earnings of reimbursements received from the Treasury Department and Government agencies for maintenance of floor and vault space used by the Reserve bank in conducting fiscal agency, custodianship and depository operations. Such reimbursements should be reported as a deduction from operating expenses. Rent received from tenants, including the Loan Agency of the Reconstruction Finance Corporation, should be included in miscellaneous earnings as heretofore.

"The monthly report of current expenses, Form 96, should include all fiscal agency and other expenses, whether or not reimbursable. Heretofore reimbursable fiscal agency expenditures have not been included in current expenses. Reimbursements for certain fiscal agency and other expenses are to be shown as a deduction from total operating expenses to arrive at net operating expenses. To this total will be added assessment for expenses of Board of Governors and cost of Federal Reserve currency to arrive at total current expenses.

"It will be noted that furniture and equipment purchased should be included in current expenses instead of in profit and loss account as heretofore. Normal depreciation on bank building, including vaults and fixed machinery and equipment, should also be included in current expenses. Depreciation at one-twelfth of the annual rate should be charged to current expenses each month and credited to reserves. Prior service contributions to Retirement System should be charged to profit and loss when paid and not to current expenses as heretofore.

"On the daily balance sheet, Form 34, the caption 'Fiscal agency expenses, reimbursable' should be changed to 'Fiscal agency and other expenses, reimbursable'. No amount should, of course, be reported opposite the caption 'Furniture and equipment' as the cost of furniture and equipment purchased is to be included in current expenses. The necessary adjustments on Form 34 should be made on February 25.

"Form 96-a is a new form on which should be reported the reimbursable expenses of the Federal Reserve bank. The total of such expenses should agree with the total reimburse-

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ments for certain fiscal agency and other expenses shown on Form 96.

"It will be appreciated if you will advise whether it is practicable to submit combined reports on Forms 95, 96 and 96-a, as revised for use during 1937, for each calendar year as a whole since organization of the System for use in compiling for publication comparable figures for prior years."

Approved unanimously.

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

"Relet February 11, 1937, transmitting copy of letter from Union Bond and Mortgage Company, Port Angeles, Washington, from which it appears that such company desires to know whether cash, accounts receivable, or notes receivable may be considered readily marketable assets acquired in compliance with section 5144 of the Revised Statutes for purpose of possible claim for tax credit under section 26(d) of Revenue Act of 1936. Board feels that it should rule upon questions of this nature only in making certifications under section 26(d) with respect to claims made for tax credit in tax returns and upon basis of all facts involved in particular claims. It is assumed that Union Bond and Mortgage Company has in mind that even though particular kinds of assets might constitute readily marketable assets within meaning of section 5144, the question whether a holding company affiliate is entitled to a tax credit for any increase in amount of such assets during a taxable year involves other questions, including whether such increase resulted from devotion of earnings or profits to acquisition of such assets. It is suggested that you call attention of holding company affiliate to desirability of furnishing full information upon which any such claim is predicated as provided in regulation of Bureau of Internal Revenue inclosed with Board's letter X-9737."

Approved unanimously.

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

"Receipt is acknowledged of your letter of February 18,

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"1937, with inclosures, regarding the proposed organization under section 25(a) of the Federal Reserve Act of the International Funding Corporation. It has been noted that the organizers have not submitted the information requested in your letter of October 30, 1936 and that a reply has not been received to your letter of January 18, 1937 requesting advice as to when such information would be received. It has been noted, also, that you feel that there is little likelihood that the organizers have developed plans which will warrant favorable action upon the proposed organization, and that the matter should be allowed to rest awaiting further action by the applicants. In view of the circumstances, the matter will be held in abeyance pending further action by the applicants."

Approved unanimously.

Letter to the Federal reserve agents at all Federal reserve banks, reading as follows:

"In the Board's telegram Trans 2094 of September 28, 1934, each Federal Reserve agent was requested to notify each other Federal Reserve agent and the Board, by telegraph, of the name and location of every nonmember bank which files an agreement with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934. On the basis of these telegrams the Federal Reserve agents keep up to date the list of nonmember banks which have filed such agreements, which list is intended to be available for distribution to interested persons as provided by Section 10, paragraph (b), of Regulation T.

"It has been suggested to the Board by one of the Federal Reserve banks that the notices of changes are not of sufficient urgency to justify the use of the wires for the purpose. The Board concurs in this view and, accordingly, it is requested that hereafter each Federal Reserve agent notify each other Federal Reserve agent by mail of additions to the list of nonmember banks which have filed agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act. The Board, however, should be advised by telegram, by code word 'Aightable' assigned for the purpose, unless notice can be mailed in time to reach the Board's offices within two days from the date on which the nonmember bank files the agreement."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

W. S. Lewis
Chairman.