A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 12, 1937, at 11:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak

Mr. Bethea, Assistant 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 Messrs. Kimball and Clark, Secretaries of the Federal Reserve Banks of New York and Atlanta, respectively, stating that the Board approves the establishment without change by the New York bank on March 11, 1937, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Letter to the board of directors of the "First Trust & Savings Bank of Riverdale", Riverdale, Illinois, 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 in the Federal Reserve Bank of Chicago:

"4. Such bank shall make adequate provision for depreciation in its 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 $650, as shown in the report of examination of such bank as of February 8,

"1937, made by an examiner for the Federal Reserve Bank of Chicago.

"6. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding, a legend reading substantially as follows:

'Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Deferred Certificates issued by the bank to certain stockholders who made advances in 1933, pursuant to agreements, copies of which are on file with the First Trust & Savings Bank of Riverdale, must be paid.'

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 6, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of the outstanding Deferred Certificates to the rights of the stockholders.)"

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

"The Board of Governors of the Federal Reserve System approves the application of the 'First Trust & Savings Bank of Riverdale', Riverdale, Illinois, 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 Auditor of Public Accounts for the State of Illinois for his information.

"On page 12B of the report the examiner includes a schedule which shows that certain securities are carried by the bank in excess of their call prices; the aggregate excess carrying value is, however, relatively small. It is assumed that, in accordance with your practice in such cases, you will call this matter to the attention of the management with the request that prior to membership the necessary adjustments be made in the carrying value of such securities.

"It has been noted that in the past the bank has engaged rather extensively in the sale of real estate mortgages, and it is assumed in this connection that, if you have not already done so, you will call the management's special attention to condition of membership numbered 3, under the provisions of which the institution will not be permitted to engage in the business of selling real estate mortgages.

"It has also been noted that your counsel has failed to sign the certificate which he has executed on Form 83E. It is assumed that the failure to sign such certificate was due to inadvertence."

Letter to the board of directors of the "Union Bank & Trust Company", Cedar Falls, Iowa, stating that, subject to the conditions of membership numbered 1 to 6 contained in the Board's Regulation H and the following special condition, the Board approves the bank's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of Chicago:

"7. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures."

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

"The Board of Governors of the Federal Reserve System approves the application of the 'Union Bank & Trust Company', Cedar Falls, Iowa, 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 Superintendent of Banking for the State of Iowa for his information.

"It has been noted that on page 21-c of the report of examination as of February 1, 1937, certain savings deposits were listed as being not in conformity with the provisions of Regulation D and Q. Such list, however, did not include the savings deposit of Cedar Falls Township listed on page A-1 of the report which also would appear not to be a savings deposit as defined in the Board's regulation. It is assumed that the bank's attention will be called to the provisions of the Board's regulations with respect to the proper classification of deposits."

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

"Receipt is acknowledged of your letter of February 6, 1937, and inclosures, regarding 'The Louisville Trust Company', Louisville, Kentucky, and it is noted that you regard this bank as a major problem.

"In accordance with your suggestion, both the Reconstruction Finance Corporation and the Federal Deposit Insurance Corporation have been advised of the situation and the report of examination has been made available to both corporations for the purpose of reviewing the condition disclosed therein.

"It has been noted that you have written the board of directors of the bank regarding the criticized policies and practices of the management and the matters subject to criticism as shown in the report of examination, and have requested advice as to the steps to be taken to correct such matters. It has been noted also that you have arranged for a conference with the Banking Commissioner of Kentucky to discuss the problem presented by this bank.

"It will be appreciated if you will keep the Board advised of the developments in this situation. Following your conference with the Commissioner of Banking, please forward your recommendation as to what action, if any, should be taken to bring about a correction in the policies of the management of the bank.

"In connection with the comments in your letter of February 5, 1937, to the directors of the bank regarding the call report of condition as of March 4, 1936, it will be appreciated if you will advise whether there has been any violation of law which has been or should be brought to the attention of the United States District Attorney."

Approved unanimously.

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

"This refers to the information regarding the trust activities of Carbon Emery Bank, Price, Utah, set forth on page 18-1 of the report of examination of such bank made as of October 19, 1936.

"It has appeared from previous reports of examinations that, by direction of the Utah State Industrial Commission, there have been deposited with the bank certain funds which represent death compensation of deceased miners and are received and disbursed for the benefit of their dependents. While the exact nature of such accounts is not entirely clear, it appears that the bank exercises limited, if any, fiduciary powers in connection therewith and hence no question has been raised concerning them. However, it now appears that, in addition to such accounts, the bank has accepted one guardianship, but your examiner was advised that the bank has no intention of further extending its trust activities and that no new business is being solicited.

"As you know, the bank was admitted to membership in the Federal Reserve System in 1918 subject to the following condition of membership:

'4. That except with the approval of the Federal Reserve Board there shall be no change in the general character of your assets or broadening in the functions now exercised by you, such as will tend to affect materially the standard now maintained and required as a condition of membership.'

Apparently the bank was not exercising trust powers at the time of its admission to membership. In the circumstances, the Board will raise no objection to the bank continuing to handle the guardianship account now held by it nor accounts of the kind now held for the State Industrial Commission, but if it should desire to exercise trust powers in other instances it should first obtain the permission of the Board. Please advise the bank accordingly."

Approved unanimously.

Letter to the First of Boston International Corporation, Boston, Massachusetts, reading as follows:

"It has been observed from the report of condition of the First of Boston International Corporation as of December

"31, 1936, that the Corporation was holding 382 shares of preferred stock of the Gulf States Steel Company and 546 shares of preferred stock of the Southern Indiana Gas and Electric Company, which had been called for retirement. The agreement entered into by the Corporation with the Board of Governors of the Federal Reserve System on May 11, 1935, does not prescribe the type of securities in which the Corporation may invest, and the Board of Governors has not undertaken to prescribe restrictions with respect thereto in accordance with the provisions of paragraph 1 (a) of the agreement. It feels, however, that, since the Corporation is wholly owned by the First National Bank of Boston, which is not permitted by law to invest in corporate stocks except in certain limited classes which do not include stocks of the type mentioned, the Corporation should refrain from making investments in corporate stocks other than such stocks as may be incidental to its foreign banking operations.

"It has been noted also that the required reserves against deposits have been computed at 19½ per cent of demand deposits and 4½ per cent of time deposits, the amount of reserves required to be carried at the present time by member banks located in a central reserve city. Paragraph 1 (c) of the agreement entered into by your corporation with the Board of Governors, however, provides that the reserve carried against deposits received in the United States shall be not less than 13 per cent of all deposits, no distinction being made between time and demand deposits. It has been noted, however, that the reserves reported were in excess of the required reserves computed on that basis."

Approved unanimously.

Letter to the French American Banking Corporation, New York, New York, reading as follows:

"It has been noted from the report of condition of your corporation as of December 31, 1936, that required reserves against demand deposits received in the United States had been computed on the basis of 13%, and that no time deposits were held. Under the terms of your agreement with the Board of Governors of the Federal Reserve System entered into pursuant to section 25 of the Federal Reserve Act, you are required to maintain against deposits received in the United States a reserve in the amount required by law against deposits of member banks located in central reserve cities; and, as you know, member banks in central reserve cities were required on December 31, 1936, to maintain a reserve of 19½% against

"demand deposits and 4½% against time deposits.

"The Board of Governors would be willing, if you should so desire, to modify the terms of the agreement under which you are operating, pursuant to the provisions of section 25 of the Federal Reserve Act, so as to provide that you maintain a reserve of 13% against all deposits received in the United States, both demand and time, the amount required, under the provisions of the Board's Regulation K, of foreign banking corporations organized under section 25 (a) of the Federal Reserve Act. It is observed that the reserves which you had on December 31, 1936, were more than sufficient to meet the increased requirements applicable to member banks in central reserve cities. Unless and until the agreement is modified, however, the required reserves should be computed on the basis of the prevailing requirements for member banks in central reserve cities in accordance with the terms of the present agreement.

"Your views with respect to this matter will be appreciated."

Approved unanimously, together with a similar letter to the International Banking Corporation, New York, New York.

Letter to Mr. Schaller, President of the Federal Reserve Bank of Chicago, reading as follows:

"This refers to your letter of February 25, 1937 presenting the question whether deposits received by a member bank as collateral to loans of United States Government securities constitute deposits against which reserves are required to be carried with the Federal Reserve bank of the district.

"It is understood that the member bank lends United States Government securities to certain of its customers who are dealers in securities and as collateral for such loans accepts deposits from the customers. The agreement under which the loans of United States Government securities are made contains, among others, the following provisions:

'To secure re-delivery as outlined in the preceding paragraph, and to secure performance and payment by you of any other of your obligations to us, you have deposited with us $_____ in cash and the following securities:

'Upon failure to make re-delivery as required

"'above, we shall be entitled, at our option, to retain said cash and securities deposited by you as our absolute property in lieu of the securities loaned to you.'

"You state that the member bank does not consider deposits made under an agreement of this kind as constituting a part of its deposit liability subject to reserve because of the view that so long as its records indicate that these deposits are segregated for this particular purpose, the funds should be considered as collateral and not as deposits subject to reserve. It is understood from your letter, however, that the funds on deposit are mingled with the bank's other general assets.

"In a ruling published at page 572 of the Federal Reserve Bulletin for 1922, the Board took the position that all funds received by a bank in the course of its commercial or fiduciary business must be considered as deposits against which reserves are required to be carried, unless such funds are trust funds and are actually segregated from the other assets of the bank. Since the date of the above ruling, the principle stated therein has been applied on a number of occasions and was recently applied in a ruling published at page 113 of the Federal Reserve Bulletin for February, 1937.

"It appears that the deposits in question create an ordinary debtor-creditor relationship between the bank and the customer and that the funds on deposit under the arrangement referred to above are not trust funds and are not actually segregated from the other assets of the bank. Accordingly, it is the view of the Board that the provisions of section 19 of the Federal Reserve Act require that reserves be carried against these deposits."

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 February 13, 1937, and inclosures, with regard to certain loans made on the security of stock or bond collateral by The Fifth Avenue Bank of New York, New York, New York, which the examiner, in the report of examination as of September 26, 1936, states are in excess of the 10 per cent limitation prescribed by section 11(m) of the Federal Reserve Act. It appears that certain officers of and counsel for The Fifth Avenue Bank of New York maintain that surplus, for the purposes of section 11(m), includes not

"only the bank's stated surplus but its undivided profits and reserves for contingencies as well, in which event the loans in question would not be in excess of the 10 per cent limitation; but that it is your view that the term 'surplus', as used in section 11(m) of the Federal Reserve Act, does not include undivided profits or reserves for contingencies, and that counsel for your bank is in accord with this view.

"Careful consideration has been given to the question raised in your letter and the Board is in agreement with your view and that of your counsel with regard to this matter. It is suggested that you advise The Fifth Avenue Bank of New York of the Board's position in this matter and request the bank to take such steps as are necessary to bring its loans secured by stock or bond collateral within 10 per cent of its capital and surplus, exclusive of undivided profits and reserves for contingencies, as prescribed in section 11(m) of the Federal Reserve Act."

Approved unanimously.

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

"Following the Board's letter to you of December 16, 1936 regarding the question whether section 32 of the Banking Act of 1933 is applicable to the service of Mr. L. R. Myers as a director of the Commercial National Bank and as president of the Southern Securities Company, both of Little Rock, Arkansas, Mr. Myers conferred with Governor McKee and members of the Board's staff for the purpose of ascertaining what further information was necessary to enable the Board to decide the question, and thereafter Mr. Myers submitted detailed information regarding the nature of the business transacted by his company.

"As you will remember, the Board's letter of December 16, 1936 referred to a statement which you had quoted from a letter of Mr. Myers to the effect that about 18 per cent of the gross volume of the business of the company for the fiscal year ended April 1, 1936 'could be classified as "the distribution of the securities to the public"', and suggested that you obtain additional information regarding this statement because it appeared to be inconsistent with other statements made by Mr. Myers and therefore possibly the result of a lack of understanding of the provisions of section 32. The other statements referred to, which indicated that section 32 was probably not applicable, were quoted in the Board's letter and are as follows:

"'Although we have classified about one-half of our business as having been handled for our own account, we regard ourselves entirely as brokers. We deal only in securities that are available to every other investment house and consequently must trade on a market basis at all times. By that I mean that we do not handle securities of our own origination and on which we could set an arbitrary price.

* * *

'We have not, since early in 1929, engaged in the issue, flotation, or underwriting of any securities, nor have we been connected with any syndicate engaged in the promotion of any particular security.'

"The additional information which has been submitted shows that excluding transactions in which the company was acting as broker, and transactions in which the company was making sales to other dealers, sales by the company amounted to only 10.99 per cent of the total volume during the calendar year 1936, and there is nothing in the additional information which conflicts with the above statement that the company does not engage in the issue, flotation or underwriting of securities or participate in selling or distributing syndicates.

"Accordingly, it appears that section 32 is not applicable to the relationships described in the first paragraph of this letter, and it will be appreciated if you will advise Mr. Myers accordingly."

Approved unanimously.

Thereupon the meeting adjourned.

Assistant Secretary.

Approved:

Chairman.