

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 18, 1937, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

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. Thomas, Chairman of the Federal Reserve Bank of Kansas City, and Mr. Sargent, Secretary of the Federal Reserve Bank of San Francisco, 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. Gidney, Vice President of the Federal Reserve Bank of New York, reading as follows:

"Reference is made to your letter of March 16, 1937, and previous correspondence relating to the proposed absorption of the Fayetteville Commercial Bank, Fayetteville, New York, by the 'First Trust and Deposit Company', Syracuse, New York.

"The Board has noted your opinion that in view of the relative size of the two banks the transaction will not involve any material change in the assets or the scope of powers exercised by the member bank. In view of the circumstances, the Board likewise does not regard the transaction as coming within the scope of general condition numbered 4 under which the bank was admitted to membership, and the approval of the Board to the transaction is, therefore, not required.

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"It is noted that among the assets to be acquired from the Fayetteville Commercial Bank in the transaction are certain securities which member banks are prohibited from purchasing under the provisions of section 5136 U. S. R. S. and the Comptroller's regulation governing the purchase of investment securities. In this connection, it is suggested that you advise the member bank regarding this matter and suggest that such securities be disposed of as soon as practicable."

Approved unanimously.

Telegram to "The First National Bank of Caldwell", Caldwell, Idaho, reading as follows:

"In view of stated emergency, the Board of Governors of the Federal Reserve System grants you permission to act, when not in contravention of State or local law, as trustee for bondholders of Caxton Printers, Caldwell, Idaho, the exercise of such right to be subject to provisions of Federal Reserve Act and regulations of the Board.

"Forward to Federal Reserve Bank of San Francisco certified copy of resolution of your board of directors authorizing or ratifying application. If you desire to apply for further fiduciary powers, Federal Reserve Bank of San Francisco will advise you concerning procedure."

Approved unanimously.

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

"This refers to your letter of February 12, 1937, relating to the 'Manchester Bank', St. Louis Missouri.

"Advice has been received from the Reconstruction Finance Corporation that on March 8, 1937, it ratified the capital adjustment which, due to an apparent misunderstanding, the bank effected January 14, 1937, without having first obtained formal approval of the corporation.

"Inasmuch as it is understood that the bank will be examined by representatives of your office within the next month or two, the Board will defer further consideration of the pending application for permission to exercise limited fiduciary powers until a report of such examination is available."

Approved unanimously.

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Memorandum dated March 11, 1937, from Mr. Wingfield, Assistant General Counsel, stating that some time ago the Board had considered the question whether the requirement of a condition of membership that trust funds held by a State member bank in its own banking department shall be secured by the deposit of collateral in its trust department should be waived to the extent that the trust funds are insured by the Federal Deposit Insurance Corporation, and also the question whether it should recommend an amendment to section 11(k) of the Federal Reserve Act which would modify to the same extent a similar requirement in that section applicable to national banks, and had reached the conclusion at that time that no change should be made in either requirement. The memorandum also stated that the Board had requested an expression of the views of the Comptroller of the Currency and the Trust Division of the American Bankers Association as to whether any such change should be made; that the Comptroller of the Currency had advised that he felt such a modification of the requirement as contained in section 11(k) of the Federal Reserve Act should not be made; and that a committee of the Trust Division of the American Bankers Association had submitted a report to the effect that it also did not feel that any such modification should be made. The memorandum stated further that, in the circumstances, no further action by the Board would seem to be necessary with reference to the matter and suggested that the report of the committee of the Trust Division of the American Bankers Association be acknowledged and filed.

Approved unanimously.

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

"This refers to your letter of March 3, 1937 and previous correspondence regarding the request of The Chase Bank, New York, New York, a corporation organized under the provisions of section 25(a) of the Federal Reserve Act, for permission of the Board of Governors to exercise the following 'corporate agency' powers:

'To accept and hold securities deposited with it in Paris, France, in safekeeping or as custodian or under deposit agreements or as agent; and to issue in Paris, France, in its own name or as agent, certificates and receipts in bearer and registered form for securities so deposited.'

"In its letter of November 20, 1935 The Chase Bank described the business which would be done pursuant to the above powers as follows:

'The business proposed to be done falls into two classes: (a) acting merely as safekeeping agent or custodian for persons, firms and corporations, and (b) acting as agent in connection with corporate reorganizations. In the former case it is not customary to issue negotiable receipts; in the latter case it is, although the practice is now becoming common of merely stamping securities assenting to a plan.'

"Section 25(a) of the Federal Reserve Act provides that each corporation organized thereunder shall have power, under such rules and regulations as the Board of Governors may prescribe, to exercise such powers as may be usual, in the determination of the Board of Governors, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and which are not inconsistent with the powers specifically granted therein.

"Inasmuch as it appears from the information which has been presented to the Board of Governors that the requested 'corporate agency' powers are usual in connection with the transaction of the business of banking or other financial operations in Paris, France, and are not inconsistent with the powers specifically granted to the corporation by section 25(a) of the Federal Reserve Act, the Board of Governors grants permission to The Chase Bank to exercise in Paris, France, the powers stated in the first paragraph of this letter. This permission is granted upon condition that

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"The Chase Bank shall not exercise these powers in a manner which would cause it or any member bank to violate the provisions of sections 20, 21, or 32 of the Banking Act of 1933 or any other provision of law.

"It will be appreciated if you will advise The Chase Bank accordingly."

Approved unanimously.

Letter to Mr. W. L. Glover, Vice President and Cashier, First National Bank in Orangeburg, Orangeburg, South Carolina, reading as follows:

"This refers to your letter of March 8, 1937 regarding the question whether the absorption by your bank of the expense of printing customers' names on checks or the numbering thereof would be considered a payment of interest within the meaning of section 19 of the Federal Reserve Act and Regulation Q.

"The regulation as amended effective February 11, 1937 contains the following provision: 'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.'

"For the present the Board of Governors will not attempt to issue detailed interpretations or rulings with reference to questions as to whether the absorption of certain expenses constitutes a payment of interest, but will rely upon the cooperation and good faith of the member banks in adapting their practices to conform to the spirit and purpose of the statutory provisions prohibiting the direct or indirect payment of interest on demand deposits. The determination of such questions involves a due recognition of the spirit and intent of the law and the exercise of judgment on the part of the bank in the light of the provisions of the regulation and of all the circumstances of the case. If, after considering such a question in this light, there appears to be any serious problem with respect to the matter, it is believed that it can best be handled in due course upon a review of all the facts shown by the records of the bank and the examiner's reports, if the necessity arises. The Board trusts that through the cooperation of the member banks in this matter the necessity for numerous detailed rulings on the subject may be avoided."

Approved unanimously.

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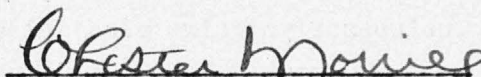
Memorandum dated March 16, 1937, from Mr. Vest, Assistant General Counsel, recommending that there be published in the April issue of the Federal Reserve Bulletin statements in the form attached to the memorandum with respect to the following subjects:

Deduction of Withdrawable Dividends from Amount of Demand for Margin Under Regulation T.

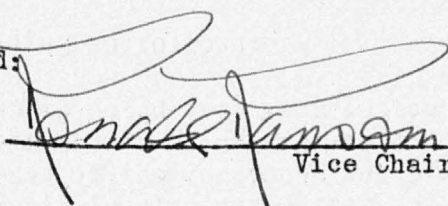
Determination of Market Value of Stock for Loan Under Regulation U.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.