A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, March 26, 1937, at 2:30 pm.

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 25, 1937, were approved unanimously.

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 25, 1937, and by the Atlanta bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 23, and, in accordance with the request contained therein, the Board approves the appointment of George Irwin Baggott, as assistant examiner for the Federal Reserve Bank of St. Louis. Please advise the effective date and salary rate.

"In answer to your inquiry, you are advised that it
"is necessary that appointments of assistant examiners, as well as examiners, be approved by the Board."

Approved unanimously.

Memorandum dated March 23, 1937, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated March 17 from Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis, which requested approval of changes in the personnel classification plan of the bank to provide for the discontinuance in the Purchasing Department of the position of "Head of Department", and "Purchasing Clerk", and in the Stock, Duplicating and Telephone Department of the position of "Head of Department", and for the creation of the new positions in the Purchasing-Stock-Duplicating-Telephone Department of the positions of "Head of Department" and "Assistant Head of Department". The memorandum stated that in addition to the above changes there were certain revisions of a minor character in the description of work and departmental titles of two other positions, all of the changes being due to the consolidation of the Purchasing and Stock-Duplicating-Telephone Departments of the bank. The memorandum also stated that the proposed changes appeared to be reasonable, and recommended that they be approved.

Approved unanimously.

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

"Reference is made to your letter of March 12, 1937, with inclosures, regarding the request of the
"Arkansas Trust Company', Hot Springs National Park, Arkansas, for reconsideration of condition of membership numbered 7, which reads as follows:

'7. Such bank shall not, except to the extent usually necessary in the transaction of a banking or trust business, directly or indirectly, engage in the business of dealing in real estate, either for its own account or as agent for others, or of acting as agent for others in the renting of real estate or in the collection of rents thereon, and such bank shall not issue abstracts of title.'

"In requesting reconsideration of the condition of membership the president of the trust company has advised that the directors of the bank have decided not to complete membership in the System if to do so would necessitate the elimination of the rental and abstract departments.

"According to the report of examination as of October 16, 1936, made in connection with the application for membership, the bank had a real estate and rental department, which, in addition to managing the bank's own properties, was managing properties for about 55 other accounts on a commission or fee basis. It was stated that the department had been part of the bank's operations since the bank was organized in 1907 and that the business had been purchased from the former president of the bank. The report also shows that in 1913 the bank purchased the business of an abstract company in which two of the bank's directors were principally interested, dissolved the corporation, and organized a title department which prepares abstracts but does not guarantee titles.

"It has been the established policy of the Board in cases where a bank applying for membership has been operating a real estate agency or rental department to prescribe a condition of membership such as condition numbered 7 prescribed in the case of the Arkansas Trust Company. The Board feels that such a policy is in the interests of sound banking and that, therefore, the condition of membership numbered 7 should not be canceled. It is assumed, of course, that you have pointed out to the management that the condition of membership is not intended to restrict the bank in handling its own real estate or in such management of other properties as may be necessary to protect its loans or in such real estate activities as are incidental to the exercise of its trust functions.
"The bank's application for membership was approved February 5, 1937, and the time within which membership could be completed, which was limited to 30 days from that date, has expired. The Board, however, extends to 30 days from the date of this letter the time within which the bank may accomplish its membership if it so desires."

Approved unanimously.

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

"Reference is made to your letter of March 18, 1937, submitting to the Board the application of the 'Gonzales State Bank', Gonzales, Texas, for permission to retire $4,000 of its $35,000 of outstanding capital debentures owned by the Reconstruction Finance Corporation."

"The Board has considered the information submitted, and, in view of the circumstances and in accordance with your recommendation, grants its permission for the proposed retirement, provided, of course, that the transaction has the approval of the appropriate State authorities."

Approved unanimously.

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

"Receipt is acknowledged of your letter of March 4, 1937, inclosing a copy of a bill which the State Banking Department proposed to introduce in the legislature of the State of Oklahoma and which you indicate is similar to measures which may be introduced in the Kansas and Nebraska legislatures. It is noted that this proposed legislation would prohibit branch banking but would permit State banks to establish branch offices for certain limited purposes, such as receiving deposits and paying checks."

"You state that it is your understanding that the Comptroller of the Currency has ruled that offices of the type referred to above are, in fact, branches and would come within the prohibition of the proposed legislation directed against branch banking. In the circumstances, you express some concern over the possibility that the passage of the measure might put national banks in Oklahoma at a competitive disadvantage with State banks.
"and suggest that it might result in the surrender of national bank charters and the reduction of the number of member banks.

"You will note that, for the purpose of determining what is or is not a branch, section 5155 of the Revised Statutes of the United States provides as follows:

'The term "branch" as used in this section shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States or in the District of Columbia at which deposits are received, or checks paid, or money lent.' (Underscoring supplied.)

"The proposed measure, as you point out, adopts almost word for word the language of the branch banking law now in force in the State of Iowa; but the enactment of such measure into law would not mean that national banks could not establish offices of the kind under discussion, since it is understood from informal advice obtained from the office of the Comptroller of the Currency that the Comptroller, upon the basis of the above definition, has taken the position that national banks can establish branch offices in Iowa within the territorial limits provided by the State law, subject to the exception that such branch offices cannot be established in a city or town in which there is already an established banking institution.

"You also inquire whether the Board has given consideration to the admission to membership in the System of State banks having offices such as those described in the proposed legislation in States which by law prohibit branch banking. In this connection, the Board has ruled that offices of this type are branches within the meaning of the provisions of the Federal Reserve Act relating to membership of State banks. (Federal Reserve Bulletin, 1933, p. 499.) It is believed that this ruling fully states the Board's position with reference to membership of State banks having such offices, but, if you desire any further information regarding this matter, please advise."

Approved unanimously.

Letter to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:
"This refers to your letter of February 1, quoting a letter received from the Commissioner of Banks of the State of Minnesota with respect to the publication of reports of condition of State bank members in accordance with the Board's Form 105e and the acceptance of such published statements by the State banking department.

The letter from the State banking department has been read with much interest and it is our hope that a method may be found shortly whereby duplicate publication of reports by State bank members may be avoided. We have been working on this problem for some time and, as you know, conferences have been held with representatives of State banking departments with the view of bringing about a substantial uniformity in the forms of condition reports prescribed by both Federal and State authorities. Our work in this respect has progressed to the point that we are very hopeful that such uniformity will be obtained in the near future.

Differences in methods of classifying loans and investments and deposits are at times difficult to iron out, but the spirit of cooperation manifested in our relations with the committee representing the State banking departments has been such as to lead us to believe that we shall encounter no insuperable difficulties in eliminating these difficulties, particularly so far as published reports are concerned.

We shall keep before us the points covered in the letter from the State banking department of Minnesota and hope to be able to advise you at an early date of such agreements as may be entered into with other supervisory authorities with respect to the call report.

"Form 42 used by the State banking department is so radically different from our Form 105e that it would not be practicable for the Board at this time to accept a statement published in that form in lieu of a statement published in accordance with the Board's Form 105e."

Approved unanimously.

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

"This refers to Mr. Sawyer's letter of February 18 in which he states, on the basis of information received from the Assistant Secretary of the Boston Stock Exchange, that
"consideration is being given to the placing of a service charge by the Exchange on applications made to the Business Conduct Committee, in accordance with Regulation T, for extensions of time within which a broker or dealer must receive margin in the case of a margin transaction or payment in the case of a cash transaction. It is understood that the Exchange would be glad to know whether the adoption of such a charge would meet with any objection from the Board of Governors of the Federal Reserve System.

"It is noted that in the opinion of the Exchange such a charge would tend to decrease the number of applications received, or in any event to keep the number of such applications from growing so rapidly as has been the case in the past, and that it would also compensate the Exchange to some extent for the work done in passing on such applications.

"The Board would not wish to interpose any objection to the imposition of such a charge which the Boston Stock Exchange might feel to be reasonably necessary to compensate it for the work done in passing on these applications. However, since such applications are not to be granted in any event except in exceptional circumstances, it would not seem advisable to differentiate between different types of applications in imposing such a charge. For the same reason, while the Board does not wish to reflect in any way upon the policies of the Exchange with respect to such applications, it is possible that, instead of adopting such a charge, the Exchange might find it desirable to examine such applications more carefully and to exercise increased vigilance to see that they are granted only in truly exceptional cases where there are unusual circumstances fully warranting such action. In addition, the exchange might feel it desirable to call the attention of applicants to the flexibility provided by section 4(f) of the regulation with respect to the receipt of checks and the shipment of securities with draft attached."

Approved unanimously.

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

"Reference is made to your letter of December 15, 1936 forwarding a copy of a digest of Regulation U prepared by Mr. Bonnar Brown of your bank, and to your letter of February 28, 1937 regarding the digest. It is regretted that it has not been possible to advise you sooner with respect to this matter."
"The digest of Regulation U clearly reflects careful application and a very good understanding of the regulation; and while there is attached a memorandum containing certain suggestions for changes in the digest, it will be noted that, with the exception of suggestions for deleting certain questions, the suggested changes relate largely to matters of phraseology or other details. As indicated in the memorandum, the deletion of certain questions is suggested because these questions, while not necessarily incorrect, involve constructions of the regulation which the Board has not yet specifically made and which, it is believed, could best be made in individual cases upon the basis of particular facts. With the suggested changes, the Board would have no objection to your supplying this digest to your examiners and to national and State bank examiners in your district.

"As you know, since the compilation of your digest the Board has issued two letters (X-9792, Reg. U-10; and X-9828, Reg. U-11) concerning Regulation U. It is realized that the matters there discussed might very well be considered to be too detailed for inclusion in your digest. However the attached memorandum contains questions and answers on these points in form which you might wish to consider if you feel it desirable to include these points in your digest."

Approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"Reference is made to your letter of March 19 in regard to a proposed new contributory group life insurance policy.

"The Board will interpose no objection to the proposed new contributory group life insurance which, it is understood, will not result in any cost to the Federal Reserve bank if dividends are paid as anticipated. It is understood that the proposed group life insurance will be discontinued in the event that experience indicates that it will result in a material expense to the Federal Reserve bank."

Approved unanimously.

Letter to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:
"Reference is made to your letter of January 14 in reply to the Board's letter of January 7 in regard to the bank's contribution to the United Hospital Fund.

"It appears that a considerable number of employees of the bank have been subscribers to the Associated Hospital Service, in return for which presumably they are entitled to certain benefits, and that there is a reasonable certainty that practically all of this number will continue membership during the present year. The Federal Reserve bank provides at considerable expense doctors and nurses, with special physical facilities, for examination and first aid treatment of employees, and contributes $1,125 a year to a tuberculosis association, aside from assuming various expenditures directly benefiting the employees in other ways. Although it appears that the purpose of the contribution to the United Hospital Fund is a worthy one from a public standpoint, it does not appear that it will entitle the bank or its employees to any special privileges or benefits.

"The reports of other Federal Reserve banks do not indicate that any similar contributions are being made by them. As you know, the Board from time to time has indicated its view that funds of Federal Reserve banks should not be used for donations to further purposes, no matter how worthy, which are not directly related to the conduct of the affairs of the banks. In view of the peculiar relationship of the Federal Reserve banks to the Government, and the Government's special interest in the financial results of the operation of the Federal Reserve banks, the Board is inclined to question whether further contributions of this kind would be justified, and therefore requests that, if the bank should feel disposed to make such contributions in future, it first submit the matter to the Board with a full showing of the facts which, in its opinion, justify the expenditures in relation both as to amount and benefits to the conduct of the affairs of the bank, in ample time to enable the Board to consider the matter before any commitment is made by the bank."

Approved unanimously.

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

"Consideration has been given by the Board of
"Governors to your letter of February 24, 1937, in which you raise the question whether the draft of the policy record inclosed with my letter of February 19, 1937, covering actions taken by the Federal Open Market Committee during 1936 is broad enough.

"As stated in my letter of February 19, references to certain actions taken by the Committee were eliminated from the record for the reason that they were not regarded as matters of the kind which it was intended by Congress should be included in the record nor as being of such importance as to justify their inclusion. The important actions taken by the Committee at the meetings on March 19 and May 26 with respect to general open market policy were (1) the granting of authority to the executive committee to replace maturing securities and to make shifts of securities in the account, and (2) the granting of authority to the executive committee in the case of unforeseen circumstances to increase or decrease the System portfolio, and these actions are embodied in the proposed policy record.

"The requirements of the last paragraph of section 10 of the Federal Reserve Act that a record shall be kept of actions taken clearly refers only to questions of policy upon which decisions are reached and votes taken, as evidenced by the fact that it provides that the votes taken in connection with the policies determined shall be recorded as well as the underlying reasons. While it is agreed that if the Committee voted to take no action on an important question of policy that decision should be recorded (as you will see was done in the 1935 policy record for November 8, 1935, and December 18, 1935, printed on pages 205 and 223, respectively, of the Board's Annual Report for 1935), there were no decisions upon which votes were taken which would seem to be of sufficient importance to be incorporated in the record in addition to those embodied in the draft sent you with my letter of February 19, 1937. If you disagree with this position the Board will be pleased if you will give it the benefit of your suggestions as to the material that should be added to the record in order to make it complete."

Approved unanimously.

Letter to Honorable Wright Patman, House of Representatives, reading as follows:
"Chairman Eccles has asked me to reply to your letters of February 23 and 26, requesting certain information with respect to salaries of Federal Reserve bank officers and profits of member banks of the Federal Reserve System. We regret that there has been a delay in furnishing you the information you requested.

Attached is a statement showing the annual salary as of December 31, 1935, of each officer other than the Chairman and Federal Reserve Agent and the Governor of each of the twelve Federal Reserve banks. At the end of 1935 the position of Chairman and Federal Reserve Agent at the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Kansas City and San Francisco was vacant, the duties of the Chairman of the board of directors being performed in each case by a Deputy Chairman without salary, and the duties of the Federal Reserve Agent by an acting or assistant Federal Reserve agent included in 'Other Officers' in the table on page 250 of the Board's 1935 Annual Report. At the present time no salary is paid to any Chairman and Federal Reserve Agent; they are, however, entitled to receive the same fees as other members of the board of directors of the Federal Reserve banks.

"Earnings, profits, recoveries, and losses on Government bonds are not shown separately in the reports of earnings and expenses rendered by national banks to the Comptroller of the Currency and by State bank members to the respective Federal Reserve banks. Accordingly, we are unable to furnish you the data with respect to profits and recoveries on sales of Government bonds requested in your letter. The table appearing on pages 158-159 of the enclosed copy of the Board's 1935 Annual Report gives the complete classification received by the Board of the earnings, expenses, profits and losses of member banks of the Federal Reserve System by years for the period 1928 to 1935, inclusive. You will note that it shows interest and dividends, recoveries, profits and losses and depreciation on total investments (including Government as well as other securities). The table also shows for the years 1933, 1934 and 1935 the amount of income that member banks derived from service charges on deposit accounts. Such income was not reported separately until the second half of 1932, when it amounted to $10,920,000.

"Figures of earnings, expenses, profits and losses of member banks for the first half of 1936, corresponding to those shown for 1928-1935 in the enclosed Annual Report, were published separately for national banks and State bank members of the Federal Reserve System on pages 948
"and 949, respectively, of the inclosed December 1936, issue of the Federal Reserve Bulletin. Corresponding figures for the second half of 1936 have not yet been compiled.

"I trust that the information furnished you herewith will serve your purposes."

Approved unanimously.

Letter to Kihn Brothers, Bank Note Engravers, New York, New York, reading as follows:

"Your letter of February 3, 1937, and inclosures, addressed to the Treasury Department, with respect to certain rulings regarding the legality of using the inscription 'United States of America' in the border and other parts of your engraved bond forms, has been referred to the Board of Governors for reply.

"It is noted that you are already familiar with the provisions of section 1 of the Act of Congress approved May 24, 1928, with reference to the use of the words 'United States', etc. (Title 12, U. S. C., section 584) and it is assumed that you have this provision of law in mind in connection with the question presented in your letter. Since a criminal penalty is provided for a violation of this provision of law, the determination of whether a particular transaction is in violation of such section would be a matter for the determination of the courts or the Department of Justice. Accordingly, the Board has not issued any rulings with regard to the question raised in your letter nor does the Board feel that it would be appropriate for it to express any opinion with respect to the matter."

Approved unanimously.

Thereupon the meeting adjourned.

Approved: [Signature]

Vice Chairman.

[Signature] Secretary.