

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, June 10, 1937, at 11:30 a. m.

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

Mr. Morrill, Secretary
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:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 9, 1937, were approved unanimously.

Telegram to Mr. Leach, President of the Federal Reserve Bank of Richmond, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Mr. Worthington, First Vice President of the Federal Reserve Bank of Kansas City, stating that the Board approves the changes in the personnel classification plans of the bank and its Denver, Oklahoma City and Omaha branches, as requested in his letters of May 11 and 26, 1937, to provide for a change in title for the position of "Supervisor" in the Research & Statistical Department to "Manager" of that department at the head office, and for the creation of the new position

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of "Federal Reserve Agent's Representative" at the Denver, Oklahoma City and Omaha branches.

Approved unanimously.

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

"Reference is made to the report of examination of the 'State Savings Bank', Lowell, Michigan, as of April 14, 1937, which contains severe criticisms of Vice President Runciman's domination of the institution and the unwarranted use of its funds by him in his personal business transactions, and also reflects extensions of credit to him in violation of section 22(g) and a further violation of that section in the failure of Mr. Runciman to file a report of his indebtedness to other banks, although the examiner states that he had previously been requested to file such reports as required by law.

"In view of the situation as disclosed by the report of examination, prompt advice is desired as to what action has been taken or is planned to effect the necessary improvements and corrections, particularly with respect to the management.

"It is noted that the examiner states that the bank has ten or twelve accounts in its savings department which are captioned 'State Savings Bank, Trustee, John Doe Cemetery Fund,' and that there is said to be a verbal understanding whereby the bank is to use the income from such funds for the upkeep of cemetery lots. These accounts appear to involve fiduciary relationships, with the bank acting as trustee. It is our understanding that the bank, because of the capital requirements of the State law, could not obtain full trust powers from the State and that the limited powers for which it might qualify do not include the right to act as trustee. It will be appreciated, therefore, if you will advise whether the State authorities regard such 'cemetery' accounts as involving the unauthorized exercise of fiduciary powers; and a statement of your views in the premises will also be appreciated."

Approved unanimously.

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

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"Reference is made to the letter of May 13, 1937 from Mr. Oliver P. Wheeler, requesting information as to what reply should be made to a letter, dated May 12, 1937, of which a copy was enclosed, from Mr. George Stephens, Secretary, California Security Dealers Association.

"The letter from Mr. Stephens renews a request made a year ago that the Board amend its Regulation U in such manner as to permit banks to loan on 'listed preferred stocks of purely investment character' a higher percentage of current market value than is now prescribed by the regulation for registered stocks in general. The suggestion is offered by Mr. Stephens in this connection that the Board issue a list of such preferred stocks that might be excluded, in California, from the general rule, and that, to begin with, twelve issues specified by Mr. Stephens be included in such a list.

"The Board understands that the purpose of the proposed amendment would be primarily that of enabling dealers in securities of the given description to carry larger inventories of such securities than they can conveniently carry under the present terms of the regulation. The Board notes, however, that the proposal raises some important questions of principle, since its adoption would involve classification of stocks registered on national securities exchanges, the classification to be based on a determination by the Board of the relative merits of particular securities, or particular classes of securities, from the investment standpoint. The Board feels that there are conclusive reasons of public policy against its undertaking in this connection to make any such determinations."

Approved unanimously.

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

"Board is of opinion that your statement to Kent as reported in next to last paragraph of your letter of June 7 re distribution of Bank of America National Trust and Savings Association stock is correct. While plan for broker to furnish list of customers referred to in preceding paragraph of your letter has apparently been abandoned, Board feels you should be advised that in absence of further study of question it has some doubts concerning whether same would be violation of prohibition in section 7(c) of Securities Exchange Act of 1934 against arranging for extension of credit on unregistered securities. Board expresses no

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"opinion as to legality or advisability of proposed loans by Transamerica Service Corporation."

Approved unanimously.

Letter to Mr. Henry T. Duncan, Allen, Duncan & Duncan, Attorneys, Lexington, Kentucky, reading as follows:

"This refers to your letter of May 15, 1937, requesting the opinion of the Board of Governors upon the question whether the Security Trust Company, Lexington, Kentucky, a member of the Federal Reserve System, has authority under the Federal statutes to underwrite and deal in certain Water Revenue Bonds which the City of Lexington proposes to issue for the purpose of acquiring the water works now owned by the Lexington Water Company.

"You stated that you were sending a copy of your letter to the Federal Reserve Bank of Cleveland as you were not certain whether this communication should be addressed to the Board in Washington or to the Federal Reserve Bank of Cleveland, and you asked to be advised whether it should have been sent to the Federal Reserve Bank.

"The Board prefers to have all such inquiries addressed to the Federal Reserve bank of the district in which the member bank involved is located and is sending a copy of this letter to the Federal Reserve Bank of Cleveland for its information.

"It is assumed that copies of all of the inclosures which were forwarded to the Board were also forwarded to the Federal Reserve Bank of Cleveland with the copy of the letter addressed to the Board which you sent to that bank. However, if you did not send copies of such inclosures to the Federal Reserve Bank, it is suggested that you do so."

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

"There is inclosed herewith a copy of a letter to Mr. Henry T. Duncan, First National Bank & Trust Company Building, Lexington, Kentucky, in answer to a letter dated May 15, 1937, from Mr. Duncan. The Board was advised that a copy of Mr. Duncan's letter of May 15, 1937, was forwarded to the Federal Reserve Bank of Cleveland.

"Inasmuch as it appears that the question presented by Mr. Duncan arises in connection with certain litigation brought

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"by Mr. Duncan's client to test the validity of a contract entered into between the Security Trust Company of Lexington, Kentucky, a member bank, certain bond houses, and the City of Lexington, Kentucky, relative to the proposed purchase of certain water works revenue bonds which it is contemplated that the City of Lexington may desire to issue in the event that it should negotiate the purchase of a water works plant, it would seem inappropriate for either the Board or the Federal Reserve Bank of Cleveland to express to Mr. Duncan any opinion regarding the validity of such contract or the right of the Security Trust Company of Lexington to enter into the same.

"However, from the information contained in Mr. Duncan's letter and the inclosures thereto, it appears that the proposed bonds will be secured only by a statutory mortgage upon the water works plant and system and repayable solely from the earnings therefrom; that the bonds will not be 'general obligations' of the municipality which are exempted from the limitations and restrictions contained in section 5136 of the Revised Statutes; and that, therefore, the Security Trust Company of Lexington, Kentucky, cannot lawfully participate in the underwriting of such bonds, as it apparently proposes to do. In the circumstances, it is suggested that you bring the matter to the attention of the Security Trust Company of Lexington, Kentucky, with a view of preventing it from unwittingly entering into a transaction which may constitute a violation of the laws pertaining to member banks.

"If, upon a further investigation of the facts, any question should develop which in your opinion makes it advisable to obtain a ruling from the Board, the Board will be very glad to give further consideration of the matter at your request."

Letter to Mr. Austin, Federal Reserve Agent at the Federal Reserve Bank of Philadelphia, reading as follows:

"This is in reply to your letter of May 18, 1937, regarding the necessity of counting new Federal reserve notes of large denomination held in the joint custody of the Federal Reserve Agent and the Federal Reserve Bank. You state that it has been the practice of your representatives, upon receipt of Federal reserve notes from the Comptroller of the Currency, to inspect each package to see that the Government seals are in place and to slit each package in such fashion as to permit a count of the bundles of notes contained in each package. You state, however, that when the Board's

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"examiners examine the bank they break down the wrappers and seals on packages of all new Federal reserve notes in denominations of \$500 and over, and count the notes piece by piece, and that this makes it necessary for someone representing the Federal Reserve Agent (in addition to an officer of the bank and a representative of the auditing department) also to piece count the notes, regardless of whether the representative of the Federal Reserve Agent has had any worthwhile experience in counting money.

"You question the necessity of such a piece count of new Federal reserve notes of large denomination on the grounds (1) that it weakens the control when the original wrappers and seals are removed, and (2) that such a count takes the time of several officers and clerks and entails a considerable cost. You ask, also, if it should be held to be necessary or advisable to piece count all new notes of large denomination, why it is not equally necessary or desirable to piece count new notes of all denominations. In this connection it is understood that the Board's examiners do not make a practice of breaking down original packages of currency of denominations of less than \$500, if, upon inspection, the packages are found to be in good order with the Government seals intact, but that in such cases a count is made of the bundles of notes within each package.

"In view of the large amounts contained in small packages of notes of denominations of \$500 and over, the Board is of the opinion that the practice of its examiners in making a piece count of all notes of \$500 and over, whether held by the Federal Reserve Agent or the Reserve Bank, and whether in broken packages or original sealed packages, is proper. You will be interested in knowing, if it has not already been brought to your attention, that it was the sense of the Conference of Auditors of the Federal Reserve Banks, held in Washington last November, that such is the proper procedure for the auditors to follow.

"One of the major reasons for breaking down original packages of notes of denominations of \$500 and over, but not breaking down original packages of smaller denominations, is that in the normal course of events packages of bills of \$500 and over are held in the vaults for a considerably longer time than the packages of bills of smaller denominations, and, should there be an error or shortage in the currency, it would be likely to develop much more promptly in the case of bills of the smaller denominations than in the case of bills of denominations of \$500 and over. Another reason, of course, is the fact that by reason of the high denominations, a comparatively small amount of bills represents a large total and can be counted readily. In this connection, however, you have

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"suggested that a considerable saving to the Federal reserve banks could be effected if the piece count of bills of \$500 and over in original packages were discontinued. Since on April 30 you held only 7,000 new notes of the 1934 series in denominations of \$500 and over, it is difficult to see how any material savings could be effected in counting the Federal Reserve Agent's cash if the original packages of currency of \$500 denomination and over were not broken down in connection with an examination, and your further advice in this connection will be appreciated.

"The Board has noticed your reference to the fact that the representative of the Federal Reserve Agent who maintains control of the currency for the Federal Reserve Agent during the course of an examination and counts the bills of denominations of \$500 and over may have had no worthwhile experience in counting money. Since the transfer of the nonstatutory duties of the Federal Reserve Agent to the bank, the principal responsibility of Assistant Federal Reserve Agents and Alternate Assistant Federal Reserve Agents is in connection with the receipt, control, and issuance of Federal reserve notes. It has been assumed that only individuals who are well qualified would be appointed by the Federal Reserve Agent to act in such capacities, and the Board trusts that your comment regarding the lack of experience in counting currency is not to be interpreted as implying that your representatives are not qualified to discharge properly their responsibilities."

Approved unanimously.

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

"Referring to your letter of June 3, 1937, it is noted that because of the absence of his immediate superior it has become impossible for the bank to release, during the coming summer session of the American Institute of Banking, the member of its staff chosen to attend the Graduate School this summer, and that another member of the bank's staff who attended the school last summer has been substituted and will attend the forthcoming session of the school at the bank's expense."

Approved unanimously.

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

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"Reference is made to Assistant Vice President Dillistin's letter of May 27, 1937, presenting for the consideration of the Board the question whether the exception set forth in paragraph (d)(5) of Section 2 of the Board's Regulation L is applicable to the services of Mr. William J. Wells as a director of The First National Bank and Trust Company of Montclair, Montclair, New Jersey, and as a director of The National State Bank of Newark, Newark, New Jersey.

"The Board has given consideration to the information submitted with Mr. Dillistin's letter and sees no reason to differ from the conclusion reached by you, and concurred in by counsel for the Federal Reserve Bank of New York, that Montclair and Newark, New Jersey, are not 'contiguous or adjacent' within the meaning of section 8 of the Clayton Act, as amended, and, therefore, that the exception in question is applicable to the services of Mr. Wells with the institutions involved."

Approved unanimously.

Thereupon the meeting adjourned.

Whester Howie
Secretary.

Approved:

W. Wells
Chairman.