

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

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Wyatt, General Counsel
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans
Mr. Leonard, Assistant Chief of the Division of Examinations
Mr. Wingfield, Assistant General Counsel
Mr. Bradley, Assistant Chief of the Division of Security Loans

There was presented a draft of a letter to the Board of Directors of the "St. Joseph Valley Bank", Elkhart, Indiana, 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."

Reference was also made to a draft of 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

6/11/37

-2-

"approves the application of the 'St. Joseph Valley Bank', Elkhart, Indiana, 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 Director, Department of Financial Institutions of the State of Indiana for his information.

"In view of the nominal amount of estimated losses as shown in the report of examination, the customary condition of membership regarding elimination of estimated losses has not been prescribed.

"It is understood that the laws of the State of Indiana prohibit the bank from pledging its assets as security for trust funds deposited in its banking department and that trust funds so deposited are preferred claims in event of liquidation of the bank. Standard condition of membership numbered 6, however, has been prescribed in order that its provisions may be invoked at any time in the future if necessary. You are, of course, authorized to waive compliance with the condition until further notice in accordance with the general authorization contained in the Board's letter of March 8, 1935, with particular reference to The Merchants Trust and Savings Company, Muncie, Indiana.

"It has been noted from the examiner's comments in connection with the particular item that the \$4,500 loan secured by 45 shares of the bank's own stock is to be paid within a short time, and it is assumed that you will follow the matter to a conclusion. The obligation in question is the balance due on a \$9,000 loan made to two directors of the bank at the time of the reorganization for the purpose of carrying stock which had been surrendered for resale in lieu of the payment of the stock assessment.

"According to the report of examination for membership, the bank operates an insurance department which had assets of approximately \$26,200 and liabilities of approximately \$17,700 for accounts due to insurance companies. The assets and liabilities of the department, however, were not included as assets and liabilities of the bank in the certified statement of condition of the bank submitted by the president, such statement including as an asset only a net control figure of \$9,416.70. While the Board has no objection to the maintenance of whatever accounts the bank may desire to carry as a matter of internal accounting, it is requested that you advise the applicant that the assets and liabilities of the insurance department should be shown in their gross amounts

6/11/37

-3-

"in future call reports of condition and published statements.

"Reference is made to the legal question raised by your counsel with regard to the corporate existence of the applicant institution. When your counsel was recently in Washington, he discussed this matter with a member of the office of the Board's counsel, and, in view of the approval of the reorganization of the applicant by the State authorities and the other circumstances involved, the Board, as indicated by its approval of the application for membership, has not felt justified in objecting to the admission of the bank to membership on account of the legal question referred to above. The Board's approval of the application, however, is given with the understanding that you feel, in the light of advice received from your counsel and all of the circumstances involved in the matter, that the Federal Reserve bank can furnish the applicant the usual facilities of membership, if it becomes a member, without being subjected to unwarranted risk. Of course, it is understood that if at any time you should deem it practicable to request the bank to take such corporate action as will eliminate the legal question you will do so."

After discussion of the legal question referred to in the last paragraph of the letter set forth above, the two letters were approved unanimously.

Consideration was given to a draft of a letter to the Comptroller of the Currency reading as follows:

"Reference is made to Deputy Comptroller Gough's letter of April 8, 1937 regarding the question whether the purchase by a national bank of certain debentures of Affiliated Fund, Inc. is subject to the Board's Regulation U which relates to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange.

"It is understood that the debentures in question are issued for the purpose of obtaining funds to acquire certain stocks which are registered on a national securities exchange. These stocks are pledged with a trustee that is to maintain the collateral for the debentures at a certain level, calling debentures for redemption and liquidating collateral as may be necessary for this purpose.

"While it seems clear that the purpose of the issue of debentures is to purchase or carry stocks registered on a national securities exchange, it is to be noted that Regula-

6/11/37

-4-

"tion U is expressed almost entirely in terms of 'loans' instead of using the somewhat broader term of 'extend credit' which appears in the provisions of section 7 of the Securities Exchange Act of 1934 under which the regulation is issued. This, of course, would not prevent the scope of the regulation from being broadened in this respect if such a change should appear to be advisable.

"The information in the inquiry is not entirely clear as to the status of the debentures; but it is the view of the Board that, if the debentures comply with the requirements of section 5136 of the Revised Statutes and your regulations issued thereunder with respect to the purchase of investment securities, the purchase of the debentures, whether directly from the issuer or from some other source, would not be subject to the present provisions of Regulation U since the regulation is at present expressed in terms of loans. If the debentures are securities that fail to meet these requirements, the inability of the national bank to purchase the debentures would prevent any question from arising in the present case as to the application of Regulation U.

"If the facts are such that the debentures should not be considered to be securities and thus would not be subject to section 5136, they should, of course, be treated as loans. The facts stated in the inquiry would seem to indicate that if the debentures should be treated as loans they would be loans subject to Regulation U.

"As requested, the inclosures forwarded with Mr. Gough's letter are returned herewith."

There was a discussion of the question whether through purchases of debentures of the kind in question banks would not in effect, be making loans which would be subject to the provisions of Regulation U, and if not, whether the Regulation should be amended to cover such purchases.

At the conclusion of the discussion, the draft of letter was approved, Mr. Ransom voting "no". In taking this action it was understood that, notwithstanding the fact that the letter had been approved by Mr. Szymczak, it would be held for reconsideration by him in the light of the discussion at this meeting.

At this point Messrs. Parry and Bradley left the meeting.

6/11/37

-5-

Mr. Ransom referred to a letter received by Chairman Eccles under date of June 3, 1937, from Mr. Walter W. Smith, President of the Federal Advisory Council, transmitting a memorandum, prepared by a special committee appointed by the Council for the purpose, in support of the statement submitted by the Council at its meeting with the Board on May 18, 1937, with respect to the Trust Indenture Act of 1937 (S.2344). Mr. Ransom suggested that in view of the relationship of the Securities and Exchange Commission to the proposed legislation he felt it would be desirable to send a copy of the memorandum to the Commission for its information, explaining briefly in the letter of transmittal the position of the Federal Advisory Council as a part of the Federal Reserve System.

The Secretary was requested to address a letter to Commissioner Douglas of the Securities and Exchange Commission in accordance with Mr. Ransom's suggestion, as well as a letter to Mr. Smith advising him of the action being taken by the Board and stating that, if the Council desires to do so, the Board would have no objection to the Council transmitting copies of the memorandum to the committees of Congress which will consider the proposed legislation and to the committee of the American Bankers Association which has been studying the bill.

Mr. Ransom then presented a letter addressed to him under date of June 8, 1937, by Mr. Guy Emerson, of the Bankers Trust Company of New York, New York, referring to the information made available by the Board to the American Bankers Association with respect to earnings and expenses of State member banks of the Federal Reserve System for the year 1936 and inquiring whether the Board would authorize the American

6/11/37

-6-

Bankers Association to make available to the Association of Reserve City Bankers data relating to earnings of State member banks for combination with similar statistics for insured State nonmember banks and national banks in tables showing the aggregate earnings for all insured banks in each State and for the United States. The letter stated that the American Bankers Association was willing to make the information available to the Association of Reserve City Bankers upon receipt of an authorization from the Board of Governors, and that the figures compiled by the Association of Reserve City Bankers for the year 1935 had been distributed to interested bankers in each of the forty-eight States and had been commented upon as being very useful.

Mr. Ransom moved that a letter be prepared to the American Bankers Association and to Mr. Emerson stating that the Board authorizes the American Bankers Association to make the data requested available to the Association of Reserve City Bankers for the purpose stated.

Carried unanimously.

Mr. Ransom stated that at Chairman Eccles' request, and in accordance with the action taken at the meeting of the Board on May 11, 1937, he and Mr. Clayton had discussed with President Hamilton of the Federal Reserve Bank of Kansas City, when the latter was in Washington during the week, the recent amendments to the by-laws of the Kansas City bank with respect to the composition of the executive committee and the administrative committee of the bank and the frequency of meetings of the latter committee. Mr. Ransom said that Mr. Hamilton had

6/11/37

-7-

been advised of the reasons for the Board's position relative to the amendments and that he (Mr. Ransom) felt that no further action was required by the Board in connection with the matter at this time but that it might be reviewed with President Hamilton when he is in Washington from time to time. Mr. Ransom's suggestion was concurred in by the other members of the Board.

Chairman Eccles stated that the Fair Labor Standards Act of 1937 now before Congress would have, if passed, very broad economic effects; that the Division of Research and Statistics was studying the problems presented by the proposed legislation; that he felt it would be desirable to have available temporarily, to assist in the study, the services of Mr. J. Raymond Walsh of Harvard University; and that it was recommended that the Board authorize him (Chairman Eccles) to negotiate with Mr. Walsh for his temporary retention for that purpose.

The recommendation was approved
unanimously.

There was presented a revised draft of the record required to be kept by the Board of Governors pursuant to the provisions of section 10 of the Federal Reserve Act covering actions taken by the Board on questions of policy during the year 1936. The draft had been revised in accordance with suggestions made during informal discussions of the record by the Board.

Approved unanimously.

6/11/37

-8-

There was also presented a revised draft of the record required to be kept by the Board pursuant to the provisions of section 10 of the Federal Reserve Act covering actions taken by the Federal Open Market Committee during the year 1936 upon questions of policy relating to open market operations. Suggestions as to revisions in this draft had been made during informal discussions by the members of the Board.

Approved unanimously.

At this point Messrs. Thurston, Wyatt, Smead, Leonard and Wingfield left the meeting and consideration was then 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 10, 1937, were approved unanimously.

Telegrams to Messrs. Kimball, Strater and Young, Secretaries of the Federal Reserve Banks of New York, Cleveland and Chicago, respectively, and Mr. Helm, Vice President of the Federal Reserve Bank of Kansas City, stating that the Board approves the establishment without change by the New York bank on June 10, 1937, and by the Cleveland, Chicago and Kansas City banks today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated June 9, 1937, from Mr. Morrill recommending the appointment on a temporary basis for a period of six months of

6/11/37

-9-

Miss Vera Romans as a stenographer in the office of the Secretary, with salary at the rate of \$125 per month, effective as of the date upon which she enters upon the performance of her duties.

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 June 4, 1937, regarding the assumption of the deposit liabilities of the Equitable Trust Company of New York, an uninsured bank, by the 'Manufacturers Trust Company', New York, a member bank. Deposits of the Equitable Trust Company are relatively small as compared to the deposits of the Manufacturers Trust Company, and you have reported that in your opinion the transaction will not involve any change in the general character of the assets of, or broadening in the functions exercised by, the member bank, such as would tend to affect materially the standard maintained and required as a condition of membership. In view of the circumstances, the Board likewise does not regard the transaction as coming within the scope of general condition numbered 3 under which the Manufacturers Trust Company was admitted to membership, and the approval of the Board to the transaction is, therefore, not required.

"According to the information submitted, the New York State Banking Department has advised that it will interpose no objection to the transaction, and it is understood that the Federal Deposit Insurance Corporation gave its approval on June 4."

Approved unanimously.

Letter to Mr. Ross H. Palmer, Financial Secretary, Local No. 228, International Union of United Brewery, Flour, Cereal and Soft Drink Workers of America, Spokane, Washington, prepared in accordance with the action taken at the meeting of the Board on June 4, 1937, and reading as follows:

"This refers to your letter of April 30, 1937, regard-

6/11/37

-10-

"ing the question whether your union may maintain a savings deposit in a member bank of the Federal Reserve System under the provisions of the Board's Regulation Q.

"Under Regulation Q, a copy of which is inclosed for your information, a deposit of a corporation, association, or other organization may not be classified as a savings deposit unless the organization is not operated for profit and, in addition, is operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes. The Board of Governors has heretofore taken the position that, without regard to the question whether or not labor unions are operated for profit, they may not properly be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes within the meaning of Regulation Q. Accordingly, the deposits concerning which you inquire may not be classified by a member bank as savings deposits."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. S. Lewis
Chairman.