

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, June 16, 1937, at 11:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
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 15, 1937, were approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, 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.

Memorandum dated June 12, 1937, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that Miss Nora V. Elder, Chief Draftsman, be granted such additional leave of absence on account of illness with pay as may be necessary for her to take, not to exceed thirty days.

Approved unanimously.

Telegram to Mr. George T. Gerlinger, President, Willamette Valley

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Lumber Company, Portland, Oregon, reading as follows:

"Board of Governors has appointed you director of Portland branch of Federal Reserve Bank of San Francisco for unexpired portion of term ending December 31, 1937. Please wire acceptance collect."

Approved unanimously.

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

"Reference is made to your letter of May 26, 1937, and to previous correspondence, relative to the application of the 'Holstein State Bank', Holstein, Iowa, for permission under its general condition of membership, to act as trustee in the one trust which it is now administering.

"It is understood that the bank accepted the trusteeship in question in the belief that it was qualified to do so, because of the fact that under its charter and applicable provisions of State law it is entitled to exercise all fiduciary powers, and that the resolution of its board of directors accepting its conditions of membership included inadvertently the three trust conditions applicable to State banks exercising trust powers at the time of admission to the System, although such conditions were not prescribed by the Board and therefore are not regarded as binding upon the bank. It is understood also that the bank does not desire to acquire any additional fiduciary business.

"It appears from the information submitted by you that the applicant's cashier and proposed trust officer, Mr. Obrecht, is disposing of his stockholdings in the Northwest Investment Company, thereby eliminating the question of a possible conflict of interests; and that the collateral pledged to secure the company's collateral trust notes, which was found at the time of the latest examination of the bank to be ineligible, has been replaced by eligible collateral.

"It seems evident that the bank, in accepting collateral which did not meet the requirements of the trust instrument, either failed to understand its duty and responsibility as trustee; has been lax in the discharge of such responsibilities, or has permitted personal interests to interfere with the fulfillment of its obligations as trustee, and the Board, therefore, is reluctant to give its approval to the bank's application. The Board, however, in accordance with your recommendation, will interpose no objection at this time to the bank's continuing to act as trustee for the collateral note issues of the Northwest Investment Company, with the understanding that in so acting

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"the bank will conform to any applicable provisions of the Board's standard trust conditions of membership numbered 4, 5 and 6, set out in section 6 of Regulation H.

"In taking this position the Board has been governed by your statement that the improper manner in which the account has been handled has been corrected, your opinion that the account will be properly handled in the future, and your willingness to accept responsibility for seeing that it is so handled. It is understood, in this connection, that your examiners will check carefully into the account at the time of each examination of the bank.

"In taking the position that it will raise no objection at this time to the bank's continuing to act as trustee for the account in question, the Board specifically reserves the right to object to the bank's handling such account and require it to relinquish the trust should it be found at any time in the future that the terms of the trust instrument are not being fulfilled or the account has been in any manner improperly administered. Please advise the bank accordingly."

Approved unanimously.

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

"The Board has been advised that, in connection with the examination of the Federal Reserve Bank of Kansas City as of February 27, 1937, the Board's examiner discussed with you and Mr. Wardell, the auditor of the bank, the advisability of discontinuing the control maintained by the auditing department over securities held in custody and the substitution therefor of additional safeguards by the operating department. The question was raised on the ground that the auditing department should not participate in the operating work of the bank, and in connection with the provision of additional safeguards by the operating department, it was suggested that there be a sharp distinction in the custody department between the maintenance of the custody records and the actual custodianship of the securities. It is understood that you would review the matter with Mr. Wardell, and it will be appreciated if you will advise the Board as to the conclusions reached after such review.

"It has been reported that there has been a steady increase in the amount of securities held for safekeeping for banks located in the head office and branch cities. The extension of the safekeeping facilities to such banks has been the subject of correspondence in previous years, and it is understood that the directors of the bank continue in the belief that a broad and liberal policy should be followed in the acceptance of securities, and that there should be no discrimination against local banks in the use of such facilities. It is understood, however, that there was a feeling in the reserve bank that some

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"of the Kansas City banks had been abusing the privilege.

"It is understood, also, that, although the deposit with the reserve bank for safekeeping of securities which are not the property of the depositing bank is directly in conflict with the reserve bank's circular letter governing the acceptance of securities for safekeeping, a large part of the securities held for certain Kansas City banks were apparently not the property of the banks. In previous correspondence on this matter, Mr. McClure, then Chairman of the Board of Directors, advised the Board that the reserve bank was aware that, contrary to the terms of its general letter, a good many member banks had placed with the reserve bank for safekeeping securities which were the property of their customers. The report of the safekeeping committee which was approved by the May 1927 Governors' Conference, contemplated that only securities which were the property of the member banks would be accepted by the reserve banks for safekeeping, and in a reply dated July 20, 1933, to Mr. McClure, the Board stated that it felt that the reserve bank should take all reasonable precautions to see that securities accepted for safekeeping are restricted to those which are the property of the member banks and that, when the reserve bank has any reason to believe that the securities offered for safekeeping are not the property of the member banks, it should make such inquiry as will assure it that the securities which may be accepted come within this category.

"It is understood that the bank's policy with respect to the holding of securities in safekeeping for member banks in Federal reserve bank and branch cities will be reviewed with the directors of your bank at an early date. The Board will appreciate advice as to such action as may be taken by your directors with respect to this matter, particularly with respect to the acceptance for safekeeping from certain member banks of securities which are not the property of such banks notwithstanding the fact that the acceptance of securities which are not the property of the depositing bank is contrary to the reserve bank's general instructions, which presumably are observed by most member banks in the district.

"It will be appreciated if you will advise the Board as to the recent developments and the present situation with respect to the absorption of postage on cash letters forwarded by member banks direct to other Federal reserve banks.

"Any other comments you may have to offer regarding the report of examination and the matters discussed will also be appreciated."

Approved unanimously.

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Letter to Honorable Carter Glass, United States Senate, reading as follows:

"Upon receipt this morning of your letter of June 15 with which you transmitted certain inclosures consisting of a letter dated June 14 from Senator McNary to you, a letter dated May 24 from Mr. Herman Kehrli, Executive Secretary of the League of Oregon Cities, and a resolution of the League of Oregon Cities, all relating to the payment of interest on demand deposits of public agencies, I brought your letter to the attention of the members of the Board, and they have requested me to advise you that the Board has taken no action on the suggestion that the existing law on this subject be modified.

"The inclosures transmitted with your letter are returned herewith, copies having been retained for our files."

Approved unanimously.

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

"Reference is made to the Board's letter of April 3, 1937, regarding the inquiry of Mr. J. M. Roth, Los Angeles, California, concerning the effect of margin regulations under the Securities Exchange Act on a partial payment plan which Mr. Roth has considered applying to the sale of securities. There are attached copies of Mr. Roth's letter and inclosure, a copy of another letter received from Mr. Roth in this connection, and a copy of the Board's reply.

"The question raised by Mr. Roth is, in effect, whether it would be permissible under Regulation T for him to sell certain registered securities according to a partial payment plan under which he would obtain a down payment of only 30 per cent of the market price of the securities, or whether he would be required to obtain 55 per cent of the market price pursuant to the present provisions of Regulation T and the Supplement to the regulation.

"On the basis of the facts indicated in the inquiry, it is the opinion of the Board that the usual 55 per cent margin requirements of Regulation T would be applicable to the transactions here involved; and it will be appreciated if Mr. Roth is advised of the Board's views in this connection.

"Under the present provisions of Regulation T which relate to this question, including sections 6, 3(f) (last paragraph), and 2(m), an exact determination of this question in a particular case depends upon a number of factors, including the intention

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"of the parties as revealed by the details of the contract or otherwise, and the relation to such a transaction of applicable statutes and decisions regarding sales and contracts. It is realized that these provisions are not entirely satisfactory; and for your confidential information it may be stated that it is planned for the revision of Regulation T, upon which work is now being done, to clarify these provisions so that the regulation will be more clearly applicable to cases of this character."

Approved unanimously.

Letter to Mr. Paul Edson Green, Buffalo, New York, reading as follows:

"Your letter of May 28, 1937 to the Securities and Exchange Commission and your letter of May 17, 1937 to the President have been referred to the Board.

"It is noted that in your opinion the regulations issued by the Board under the Securities Exchange Act of 1934 tend to restrain citizens of the United States from speculating in stocks and bonds of American corporations, without at the same time imposing corresponding restraint on foreign speculators and other foreign interests, and that the result is accordingly unjust to Americans.

"A copy of the Securities Exchange Act of 1934 is enclosed for your information. You will note that under the terms of section 7 of this act it is the duty of the Board to issue certain rules and regulations 'for the purpose of preventing the excessive use of credit for the purchase or carrying of securities', and that with respect to the initial extension of credit such rules and regulations must be based on a standard laid down in the act. Copies of the Board's regulations issued under this act, including Regulations T and U, are also enclosed.

"You will note that there are no provisions of these regulations to prevent the purchase of securities by an American citizen who confines his operations to transactions which he can finance with his own funds and without borrowing money either from brokers or from banks.

"It seems quite clear to the Board that the duty imposed upon the Board by Congress could not be properly performed, and the mandate of Congress carried out, unless the Board applies appropriate restraint upon the use of credit for speculation in securities. The Board, of course, has no authority over transactions by foreigners in their own countries, financed by their own banks, even though the dealings may involve American securities. It is to be noted in this connection that since the issue of the Board's regulations formal or informal

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"steps have been taken in a number of foreign countries to increase margin requirements."

Approved unanimously.

Letter to Mr. Donald S. Thompson, Acting Chief, Division of Research and Statistics, Federal Deposit Insurance Corporation, reading as follows:

"Referring to your letter of June 10 and attached statement which you propose to publish in your forthcoming annual report, the Board has no objection to the publication of the revised statement and figures relating to the distribution of banks according to ratio of total capital account to total deposits as of December 31, 1935."

Approved unanimously.

Thereupon the meeting adjourned.

Orestes Novice
Secretary.

Approved:

W. S. ...
Chairman.