

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, September 17, 1937, at 11:30 a. m.

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

Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director of the Division  
of Research and Statistics  
Mr. Gardner, Senior Economist in the Division  
of Research and Statistics

Mr. Ransom stated that Mr. Harrison, President of the Federal Reserve Bank of New York, had just called him on the telephone and had stated that cable advice had been received this morning from the Bank for International Settlements that on September 20, 1937, it would ship to the Federal reserve bank approximately 1,000 kilograms of gold bars; that it was contemplated that further shipments would be made within the next day up to a total value of approximately \$10,000,000; and that immediate cable advice was desired as to whether the Federal reserve bank was prepared to advance 98% of the value of the gold in transit on the same terms and conditions as the advances authorized on November 28, 1934 and September 28, 1936. Mr. Harrison reported, Mr. Ransom said, that it was thought that the advances were desired for the purpose of assisting in maintaining an orderly market in Belgium exchange by operations in dollars during unsettled periods. Mr. Ransom added that Mr. Harrison regarded the proposed advances as

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routine central bank transactions and had recommended that the Board approve compliance by the Federal Reserve Bank of New York with the request of the Bank for International Settlements; it being understood that the advances would bear interest at the existing discount rate of the Federal reserve bank.

During the course of the ensuing discussion a telegram was received from Mr. Harrison transmitting substantially the same information as was given by him to Mr. Ransom over the telephone.

Mr. Ransom attempted to reach the Secretary of the Treasury and Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, over the telephone, and upon learning that they were unavailable, talked with Mr. Lochhead, Technical Assistant in the Treasury, who stated that he had discussed the proposed advances over the telephone with Mr. Knoke, Vice President of the Federal Reserve Bank of New York, and that he (Mr. Lochhead) felt that the transaction was unquestionably for the purpose of stabilizing Belgium exchange, that Belgium had requested that the Treasury purchase gold located in Belgium but that the Treasury disliked to do so because of the existing policy of not buying gold located abroad, and that in the circumstances the procedure suggested by the Bank for International Settlements was the most natural form for the transaction to take and he saw no objection thereto.

At the conclusion of the discussion, upon motion by Mr. Szymczak, the follow-

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ing telegram to Mr. Harrison was approved unanimously:

"Board approves proposal of your bank that Bank for International Settlements be advised, in response to its cable of September 17, that Federal Reserve Bank of New York will proceed on request of Bank for International Settlements to make advances to such bank according to its requirements up to total of 98 percent of value of gold bars having approximate value of \$10,000,000 being shipped to your bank next week under terms of your cable number 247 dated November 28, 1934, to Bank for International Settlements and Board's telegram to your bank of same date except that your bank would confine advances to gold actually in transit. In this connection, Board understands that amounts advanced are to be not more than 98 percent of dollar value of gold pledged, interest on advances to be at discount rate of your bank, advances to mature upon arrival of gold in New York and payment of advances and all charges and expenses are to be made out of proceeds of sale of gold to United States Treasury.

"Please forward to Board copies of any correspondence with Bank for International Settlements in execution of these transactions. Participation in such loans by other Federal reserve banks is approved and they will be advised accordingly."

At this point Messrs. Wyatt, Goldenweiser and Gardner 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 September 16, 1937, were approved unanimously.

Telegrams to Mr. Kimball, Secretary of the Federal Reserve Bank of New York, and Mr. Taylor, Cashier of the Federal Reserve Bank of Cleveland, stating that the Board approves the establishment without change by the New York bank on September 16, 1937, and by the



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Cleveland bank today, of the rates of discount and purchase in their existing schedules.

Approved unanimously.

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

"The 'Lake Charles Bank and Trust Company', Lake Charles, Louisiana, was admitted to membership May 20, 1937, subject to the following condition of membership, among others:

If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"In addition to the Lake Charles Bank and Trust Company, there is one other State member bank in Louisiana which is subject to a similar condition of membership, the 'Rapides Bank & Trust Company in Alexandria', Alexandria, Louisiana, which was admitted to membership February 5, 1936.

"In passing upon the resolution adopted by the Lake Charles Bank and Trust Company accepting the condition of membership prescribed by the Board, Mr. Parker, First Vice President and General Counsel, called attention to the fact that the State law (Act of Louisiana No. 84 of 1924, as amended by Act No. 91 of 1926) prohibits, with certain exceptions which do not cover deposits of trust funds, any bank or trust company organized under the laws of that State from pledging or hypothecating any of its assets for the purpose of securing any depositor. He also expressed the view that in the event of insolvency any pledged securities would be restored to the bank's assets available for liquidation for the benefit of all creditors. It seems apparent, therefore, that State member banks in Louisiana cannot make a valid pledge of collateral to secure trust funds deposited by their banking departments. The Board, however, has taken the position that any deposit of collateral made pursuant to the requirements of the condition of membership must result in the creation of a valid pledge to secure the trust funds involved and that where a valid pledge cannot be made under the provisions of the State law, a bank subject to the condition of

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"membership should not deposit trust funds in its own banking department.

"The report of examination of the Rapides Bank & Trust Company in Alexandria, as of September 5, 1936, showed that the bank's trust department had deposited with the banking department \$35,865.34 of trust funds and that the bank had pledged securities having an estimated market value of \$46,625 with the trust department as security for such deposits. The report of examination of the Lake Charles Bank and Trust Company as of March 13, 1937, made in connection with its application for membership showed that the bank's trust department had deposited with the banking department \$22,404.34 of trust funds which were unsecured, as the State law did not require the pledge of collateral to secure such funds.

"For some time the Board has deferred taking any action towards requiring compliance by the Lake Charles and Alexandria banks with the condition of membership in question, as it has been considering the matter in the light of similar situations existing in other States. The Board, however, does not feel that it would be justified in further deferring the enforcement of compliance with the requirements of the condition. It is realized that such compliance may present some difficulties in making the necessary adjustments, and it is suggested, therefore, that you communicate with the banks with a view to giving such assistance to them as you may in working out, within a reasonable time, a satisfactory disposition of the trust funds in question."

Approved unanimously.

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

"Retel September 15, 1937, re proposed purchase of assets and assumption of deposit liabilities of State Bank of Wayne, Loa, Utah, by 'First State Bank of Salina', Salina, Utah. In view of your opinion that the proposed transaction will not result in any change in the general character of assets or broadening in the functions exercised by the member bank the Board does not regard the transaction as coming within the scope of condition numbered 3 under which the bank was admitted to membership and the approval of the Board to the transaction, therefore, is not required.

"Inasmuch as transaction has been reported to be purchase of assets and assumption of liabilities, significance

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"of your comment regarding charter, powers, and functions of selling bank is not clear as such comment would indicate either a merger or consolidation or the continued existence of Loa bank as a separate corporation under ownership of member bank. Position taken in this telegram is based on understanding that transaction will not result in any change which will affect status of the Salina bank as a member bank, and that Loa bank will not be operated by the member bank, either as a separate corporation or a branch. If understanding is incorrect, please advise. Please forward copies of any agreements or contracts pertaining to the transaction together with opinion of your counsel regarding legal aspects."

Approved unanimously.

Letter to the Securities and Exchange Commission, reading as follows:

"The Board has received an inquiry from the Minneapolis-Moline Power Implement Company relating to the status, with respect to Regulation T, of the convertible \$6.50 cumulative preferred stock of that company when such stock is stamped with an indorsement evidencing the holder's acceptance of a certain offer to exchange this stock for other securities. There are inclosed copies of the letter and inclosures from the company describing in detail the offer of exchange and the effect of such stamping on the rights of the holder.

"The answer to this inquiry may depend upon the question whether or not the stamping of such stock causes it to become a different security and hence, assuming the absence of a separate registration, causes it to lose its present status as a registered security. The Board would, therefore, appreciate an expression of opinion from the Commission as to the effect of such stamping upon the status of the stock as a registered security or an unregistered security.

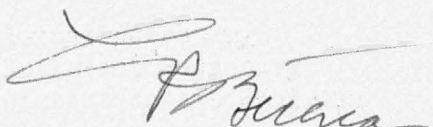
"If the Commission is of the opinion that the stamping of the stock does not cause it to become an unregistered security, there arises the additional question, if the exchange offer is declared effective, of when the status of the stamped stock is changed to such an extent that it would become a different security, and an expression of opinion from the Commission on this question would also be appreciated."

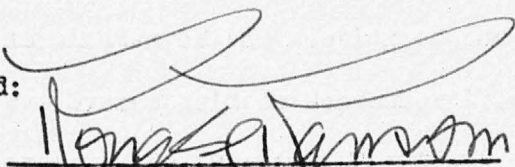
Approved unanimously.



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Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:   
Vice Chairman.