

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 17, 1938, at 11:30 a.m.

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

Letter to Mr. Henry I. Harriman, Class C director of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of March 12, 1938, accepting appointment as a Class C director of the Federal Reserve Bank of Boston and asking to be advised as to whether it will be necessary for you to dispose of your stock in the New England Trust Company and in the First Federal Savings and Loan Association of Laguna Beach, California.

"In view of the fact that section 4 of the Federal Reserve Act provides that no director of Class C shall be an officer, director, employee, or stockholder of any bank, it will be necessary for you to dispose of your stock in the New England Trust Company in order to qualify as a Class C director. However, it will not be necessary for you to dispose of your stock in the First Federal Savings and Loan Association of Laguna Beach since this association is not considered to be a bank within the meaning of the above provision."

Approved unanimously.

Telegram to Mr. McCravey, Secretary of the Federal Reserve Bank of Atlanta, reading as follows:

"Retel March 14 Board approves appointment of Mr. W. W. French, President, Moore-Handley Hardware Company, Birmingham, Alabama, as member of Industrial Advisory Committee of Sixth

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"Federal Reserve District for unexpired portion of term ending February 28, 1939, to succeed Mr. A. R. Forsyth."

Approved unanimously.

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

"Reference is made to your letter of March 9 advising that as of February 10 the 'Commerce Union Bank', Nashville, Tennessee, a member bank, acting through its Sparta branch, assumed the deposit liabilities of a non-member insured bank at Sparta, Tennessee.

"It has been noted that the deposits of the absorbed institution amounted to only \$123,400, which amount is relatively nominal as compared with the deposits of the Commerce Union Bank, and with the proceeds of the sale of certain assets to the Federal Deposit Insurance Corporation, a substantial portion of the offsetting assets acquired consisted of cash and bank balances. In your opinion the transaction has not caused any change in the general character of the assets of the member bank or in the scope of its functions. The Board likewise does not regard the transaction as coming within the scope of general condition of membership numbered one, under which the Commerce Union Bank was admitted to membership; therefore, approval by the Board is not required."

Approved unanimously.

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

"Reference is made to the report of examination of the 'Lewis County Trust Company', Lowville, New York, as of August 21, 1937, and to the supplemental information submitted in connection therewith, particularly Vice President Dillistin's letter of February 23, 1938, addressed to the trust company, a copy of which was transmitted to the Board.

"The report of examination reflects an unsatisfactory condition with inadequate capital funds, inferior characteristics in the investment account and the loans and discounts, and poor earning power due, apparently, to the large

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"aggregate of non-income producing assets. The active management is reported to be lacking in forcefulness and in need of new and younger blood.

"It is noted that after allowance for estimated losses, doubtful assets and net depreciation in securities, the report reflects a net sound capital of \$159,700, which amounts to 6.6% of deposits aggregating \$2,400,900, as compared with a net sound capital of \$293,800 (without giving effect to directors' guaranty), amounting to 13.8% of deposits at the time of the previous examination made as of April 6, 1936. Since that examination the trust company, which is not subject to a condition of membership requiring the Board's permission for reductions in its capital, retired \$200,000 of capital debentures held by the Reconstruction Finance Corporation and sold \$100,000 of debentures to local interests. The secured guarantee for \$203,840 executed for the protection of the trust company's depositors by its directors and other parties was also released. The adjustments mentioned have materially weakened the institution's capital position and it is felt that the management should give immediate consideration to plans for providing an amount of sound capital adequate in all respects in relation to the character and condition of the trust company's assets, its deposit liabilities, and other corporate responsibilities.

"The lack of progress shown by the trust company is disappointing. The opinion expressed in Mr. Dillistin's letter of February 23 that it is most important that a program be consummated at the earliest possible date to remedy the unsatisfactory conditions in the bank is entirely in order and it is assumed that the Reserve bank will endeavor to bring about the development and consummation of such a program. It will be appreciated if you will keep the Board advised as to progress in this connection."

Approved unanimously.

Memorandum dated March 7, 1938, from Mr. Parry, Chief of the Division of Security Loans, submitting a proposed amendment No. 1 of the Board's revised Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, to provide for a liberalization of the regulation by (1) amending section 4(b), to allow a broker to permit withdrawals from omnibus accounts



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even though, as a result of the transactions in the account on the day of the withdrawal, additional margin is required in the account; (2) amending section 4(c), to extend the seven-day period provided therein by the number of days required for shipments of securities, but not by more than an additional seven days; and (3) amending section 4(f), to permit a creditor to finance for an odd-lot dealer, without being subjected to the standard margin requirements, the transactions of such a person in his capacity as an odd-lot dealer. The memorandum recommended that the proposed amendment be adopted and made effective as soon after its adoption by the Board as it could be transmitted to the Federal reserve banks.

In accordance with the recommendation contained in Mr. Parry's memorandum, the following resolution was adopted by unanimous vote:

RESOLVED, That, effective March 21, 1938, Regulation T is amended in the following respects:

1. Section 4(b) of said regulation is amended by striking out the word "and" after the semicolon in paragraph (2) of said section, by striking out the period at the end of paragraph (3) of said section and substituting therefor a semicolon and the word "and", and by adding at the end thereof a new paragraph reading as follows:

"(4) A transaction consisting of a withdrawal of cash or registered or exempted securities from the account shall not be subject to the restrictions specified in the second paragraph of section 3(b)."

2. The second paragraph following paragraph (2) of section 4(c) of said regulation is amended by adding the following sentence at the end thereof:

"If any shipment of securities is incidental to the consummation of a transaction in a special cash account, the period applicable to the transaction under the foregoing provisions of this paragraph or the preceding paragraph shall be deemed to be extended

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"by the number of days required for such shipment, except that the total extension of such period pursuant to this sentence shall not exceed 7 days for any transaction."

3. Paragraph (2) of section 4(f) of said regulation is amended to read as follows:

"(2) Effect and finance, for any member of a national securities exchange who is registered and acts as an odd-lot dealer in securities on the exchange, such member's transactions as an odd-lot dealer in such securities, or effect and finance, for any joint adventure in which the creditor participates, any transactions in any securities of an issue with respect to which all participants, or all participants other than the creditor, are registered and act on a national securities exchange as odd-lot dealers."

Letter to the Presidents of all Federal reserve banks, reading as follows:

"There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding 'Time When Guarantee Is Filed with Secretary of Exchange'.

"Certain Regulation T rulings have been forwarded to you in the past with advice that they would be published in the Federal Reserve Bulletin and that you might send copies to national securities exchanges and inform them of the fact that the rulings would appear in the Bulletin. It was found that such rulings were published in the newspapers prior to their appearance in the Bulletin, although they had not been definitely released to the press. It has seemed advisable, therefore, that when a ruling is to receive such distribution, it be prepared as a statement for the press, and that an appropriate date of release be specified in order to permit sufficient time for the statement to reach all Federal Reserve banks prior to such date.

"Accordingly, it will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement."

Approved unanimously.

The ruling referred to above read as follows:

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Time When Guarantee Is Filed With  
Secretary of Exchange

Under section 6(c)(2) of Regulation T, one of the requirements for a guarantee being given effect for the purposes of the regulation is that "a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected".

The Board recently considered a case in which a creditor had received a guarantee that satisfied all other requirements for its effectiveness under the regulation, but the creditor's office was located at such a distance from an appropriate national securities exchange that it would require several days for the duplicate original to reach the secretary of the exchange by mail. The question presented was whether in such circumstances, if the creditor mailed the duplicate original to the secretary of the exchange and also advised the secretary of these facts by telegraph, the creditor might thereupon treat the guarantee as having been appropriately filed, instead of allowing time for the duplicate original to reach its destination.

It is recognized that filing requirements of other statutes or regulations frequently are held not to be complied with until the document in question has been received in the office of the person with whom it is to be filed. The Board expressed the opinion, however, that in view of the purposes of this requirement in Regulation T it would be proper in a case such as that described to treat the duplicate original of the guarantee as having been filed with the secretary of the exchange as of the time when the duplicate original has been mailed to him and he has been advised by telegraph.

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

"Reference is made to your letter of March 10, 1938, regarding the time as of which a duplicate original of a guarantee should be considered to have been filed pursuant to the requirement of section 6(c)(2) of Regulation T that 'a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected'.



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"It is understood that the creditor has received a guarantee and that it satisfies all other requirements for its effectiveness under the regulation, but that the creditor's office is located at such a distance from an appropriate national securities exchange that it will require several days for the duplicate original to reach the secretary of the exchange by mail. The question presented is whether in such circumstances, if the creditor has mailed the duplicate original to the secretary of the exchange and also has advised the secretary of these facts by telegraph, the creditor may thereupon treat the guarantee as having been appropriately filed, instead of allowing time for the duplicate original to reach its destination.

"It is recognized that filing requirements of other statutes or regulations frequently are held not to be complied with until the document in question has been received in the office of the person with whom it is to be filed. It is the opinion of the Board, however, that in view of the purposes of this requirement in Regulation T it would be proper in a case such as that described to treat the duplicate original of the guarantee as having been filed with the secretary of the exchange as of the time when the duplicate original has been mailed to him and he has been advised by telegraph."

Approved unanimously.

There was submitted a recommendation, which had been approved by the Personnel Committee, that the Board accept the bid submitted by the Imperial Bronze Company, Washington, D. C., in the amount of \$492.00, which was the lowest of four bids submitted, covering the furnishing and erection of a bronze grill and cresting over the Constitution Avenue entrance to the Board's building, in accordance with drawings which had been approved by the architect for the Board's building.

The recommendation was approved, and the Secretary was authorized to enter into a contract with the Imperial Bronze Company for the furnishing and erection of the grill and cresting in accordance with the terms submitted in the company's bid.

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Letter to Mr. Chas. H. Huckins, President, Hux Cuts Inc., New York, New York, reading as follows:

"This refers to your letter of March 2 in which you state you have recently received a good many requests for cuts of the diamond-and-oblong emblem bearing the inscription 'Member Federal Reserve System' and ask for the Board's permission to reproduce, carry in stock, and display the emblem in your catalogue.

"The Board does not control the use of the diamond-and-oblong emblem and consequently its permission is not required for you to reproduce it and carry it in stock. You, of course, understand that Section 3 of the Act of May 24, 1926, forbids any bank not a member of the Federal Reserve System to display any sign, symbol or advertisement reasonably calculated to convey the impression that it is a member of such System.

The Board has not prepared for distribution information regarding any other emblems or symbols for use by member banks of the Federal Reserve System."

Approved unanimously.

Thereupon the meeting adjourned.

Robert Moring  
Secretary.

Approved:

Frank Hamilton  
Vice Chairman.