

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

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary

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 August 4, 1938, were approved unanimously.

The minutes of the meetings of the Board of Governors of the Federal Reserve System held on August 5 and 10, 1938, were approved and the actions recorded therein were ratified unanimously.

Letter to the board of directors of the "California Trust Company", Los Angeles, California, stating that subject to the conditions of membership set forth below, the Board approves the trust company's application for membership in the Federal Reserve System and for the appropriate amount of stock in the Federal Reserve Bank of San Francisco:

1. Such trust company at all times shall conduct its business and exercise its powers with due regard

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"to the safety of its depositors and interests of the trusts under its administration, and, except with the permission of the Board of Governors of the Federal Reserve System, such trust company shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

- "2. The net capital and surplus funds of such trust company shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities, and its capital shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System.
- "3. Such trust company shall not engage as a business in issuing or selling either directly or indirectly (through affiliated corporations or otherwise) notes, bonds, mortgages, certificates, or other evidences of indebtedness representing real estate loans or participations therein, either with or without a guarantee, indorsement, or other obligation of such trust company or an affiliated corporation.
- "4. Such trust company shall not invest funds held by it as fiduciary in obligations of or property acquired from the trust company or its directors, officers, employees, members of their families, or their interests, or in obligations of or property acquired from affiliates of the trust company.
- "5. Such trust company, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the trust company as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the trust company itself.
- "6. If funds held by such trust company 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

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"as is required of national banks exercising fiduciary powers.

- "7. Such trust company shall make adequate provision for depreciation in its furniture and fixtures."

The letter also contained the following comments:

"In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H regarding membership of State banking institutions in the Federal Reserve System as published effective January 1, 1936, with especial reference to section 6 thereof. A copy of Regulation H is inclosed. It will be noted, however, that condition of membership numbered 5 as prescribed in this letter is not in the same form as contained in Regulation H. Since the publication of that regulation condition of membership numbered 5 has been revised in view of the amendment to the Board's Regulation F, effective December 31, 1937, providing for the operation of common trust funds by national banks. The provisions of Regulation F relating to this subject and which may become applicable to your trust company under the provisions of condition numbered 5 may be found in sections 10(c) and 17 of Regulation F, a copy of which is also inclosed.

"It may be noted that the provisions of the conditions, set forth above, relating to deposits are standard provisions which have been prescribed by the Board for some time in the case of all State banks applying for membership and operating trust departments. While it is understood that your institution at this time confines its activities strictly to a fiduciary business, the conditions are of continuing effect and it is deemed desirable to incorporate therein the provisions relating to deposits, so that such provisions will apply in the event the powers of your corporation are later broadened and you engage in the business of receiving deposits. The wording of these conditions is not intended to modify the requirement contained in the condition of membership numbered 1 that except with the permission of the Board of Governors of the Federal Reserve System the trust company shall not

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"cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership."

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

"As you were advised in a telegram under date of August 11, 1938, the Board of Governors of the Federal Reserve System approves the application of the 'California Trust Company', Los Angeles, California, 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 Superintendent of Banks of the State of California for his information.

"There is also inclosed a letter to California Bank relating to its status as a holding company affiliate upon the admission of California Trust Company to membership. Please forward such letter to California Bank. Two copies of the letter are inclosed, one of which is for your files and the other of which is to be inclosed with the letter to California Trust Company advising it of the approval of its application for membership.

"In view of the fact that the trust company's securities investment account reflected a net appreciation on date of examination and that neither under the former or recently revised procedure for the elimination of depreciation would a charge-off in this case be required, the condition numbered 7 recommended by your Executive Committee has not been prescribed."

The letter to the California Bank, Los Angeles, California, referred to in the above letter to Mr. Day, which was also approved unanimously, read as follows:

"This refers to the Board's approval on this date of the application of California Trust Company, Los Angeles,

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"California, for stock in the Federal Reserve Bank of San Francisco subject to certain conditions and to the status of your institution as a holding company affiliate upon California Trust Company's becoming a member bank.

"The Board understands that your institution owns or controls 9,920 of the 10,000 outstanding shares of stock of California Trust Company; that your institution has a general banking business whereas California Trust Company engages exclusively in trust business and, being closely associated with your institution, is operated substantially in lieu of the maintenance of a trust department by it; and that your institution does not own or control a substantial portion of the stock of, or manage or control, any bank, banking association, savings bank, or trust company other than California Trust Company.

"On this basis, upon California Trust Company's becoming a member bank, your institution clearly will become a holding company affiliate of it within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'The term "holding company affiliate" shall include any corporation, business trust, association, or other similar organization--

'(1) Which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a member bank * * *'

"However, in view of the facts above recited, the Board has determined that your institution is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of the following provisions of section 2(c) of the Banking Act of 1933:

'Notwithstanding the foregoing, the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act, as amended) * * * any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.'

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"As a result of such determination, your institution will not be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act. However, the Board reserves the right to make a further determination at any time on the basis of the then existing facts and, if there should be such a change in the facts as to indicate that your institution might be deemed to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, this matter should again be submitted to the Board."

Telegram to Mr. Swanson, Vice President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Retel August 11. Board extends to September 1, 1938, time within which 'The Miners' State Bank of Iron River', Iron River, Michigan, may complete its membership in the System."

Approved unanimously.

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

"This refers to your letter of August 1, 1938, inclosing a copy of the letter of July 28, 1938, from Mr. John A. Kelley, President, BancOhio Corporation, Columbus, Ohio, requesting that the Board extend, for a period of eighteen to twenty-four months, the time within which BancOhio Corporation must terminate existing relationships between it and BancOhio Securities Company in compliance with the following provisions of the application for a voting permit executed by it on September 25, 1933, and filed on or about that date:

'The Applicant represents that it does not directly or indirectly own, control, or have any interest in, and is not directly or indirectly participating in the management or direction of, any corporation, business trust, association, or other similar organization formed for the purpose

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"of, or engaged principally in, the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail or through syndicate participation, or otherwise, of stocks, bonds debentures, notes, or other securities of any sort (hereinafter referred to as "securities company"), except such securities companies, if any, as may be listed in Exhibit O attached hereto and made a part hereof; and the Applicant expressly agrees that, within 5 years after the date of this application, it will divest itself of all its ownership, control, and interest in the securities company or companies, if any, listed in Exhibit O hereof, and will cease to participate in the management and direction thereof, * * * .

"BancOhio Securities Company was listed in Exhibit O of the application and it is understood that it is a 'securities company', as above defined, and that BancOhio Corporation owns a substantial portion of its stock. Pursuant to such application, BancOhio Corporation, after being granted various limited voting permits, was granted a general voting permit on December 31, 1936.

"As you know, section 5144 of the Revised Statutes of the United States provides that no voting permit shall be granted except upon the condition that the holding company affiliate shall, in its application for such voting permit,--

* * * agree that if, at the time of filing the application for such permit, it owns, controls, or has an interest in, or is participating in the management or direction of, any such securities company, it will, within five years after the filing of such application, divest itself of the ownership, control, and interest in such securities company and will cease participating in the management or direction thereof, * * * .'

Such section defines the term 'securities company' as it is defined in the above-quoted provisions of the voting permit application.

"The law, therefore, clearly requires BancOhio Corporation to divest itself of any ownership, control, and interest in, and to cease participating in the management or direction of, BancOhio Securities Company within five

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"years from the date of the filing of its application for a voting permit and does not authorize the Board to grant any extension of the time. In the circumstances, the Board is unable to grant the request contained in Mr. Kelley's letter.

"Please advise BancOhio Corporation accordingly."

Approved unanimously.

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

"This refers to Mr. Sonne's letter of August 5, 1938, quoting a telegram dated August 5, 1938, from Mr. John M. Grant, President of Transamerica Corporation, which states that it is quite impossible for him to submit by August 10th the holding company affiliate report requested in your letter of June 27, 1938, and that he will do his utmost to have it in your hands not later than September 15th.

"The Board fully appreciates the volume of work involved in the preparation by Transamerica Corporation of a satisfactory holding company affiliate report, as requested. Since it is desired that the Corporation's report set forth fully the data requested with respect to the various units of the group, the Board extends the time within which Transamerica Corporation may submit its report to September 15th, if such time is deemed essential for the proper preparation of the report.

"Please advise Transamerica Corporation accordingly."

Approved unanimously.

Letter to Mr. Byron Moser, President of the Mutual Bank and Trust Co., St. Louis, Missouri, reading as follows:

"This refers to your letter of August 1, 1938, to Mr. Wingfield, requesting a ruling with respect to a question which has arisen in connection with the operation of a common trust fund by your bank.

"You state that the assets of the common trust fund are valued monthly and that among the assets are a number

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"of Federal Housing Administration insured mortgage loans which provide for monthly payments. You inquire whether, in order to comply with the Board's Regulation F, it is necessary to segregate, on each valuation date, any of such loans on which payments due on the first day of the month have not been paid during the month.

"Regulation F does not require the segregation of assets except as it may be necessary in order to permit new investments in participations in the fund or the withdrawal of participations in cash in compliance with the requirements hereinafter described. Section 17(c)(2) of Regulation F provides that funds of a trust shall not be invested in a participation in a common trust fund if the trust investment committee finds that any of the investments comprising the common trust fund is 'one in which funds of such trust might not lawfully be invested at that time.' Section 17(c)(6), in dealing with the withdrawal of participations, provides that, if the trust investment committee determines that any investment remaining in the common trust fund 'would be unlawful for one or more participating trusts if funds of such trusts were being invested at that time', no distribution shall be made in cash until any such unlawful investment shall have been eliminated from the common trust fund.

"Therefore, it is not necessary to segregate assets on a valuation date unless additional funds are being invested in participations in the common trust fund or participations are being withdrawn in cash and it is not then necessary unless, on the one hand, such assets would be unlawful investments for funds of the trusts acquiring participations or, on the other hand, would be unlawful investments for funds of trusts which then hold participations. The question whether a particular loan or class of loans would be an unlawful investment for funds of a particular trust is one which must be decided in the light of the terms of the trust and the applicable State law and upon which the Board cannot undertake to rule.

"Copies of this correspondence are being furnished to the Federal Reserve Bank of St. Louis and, if you have any further questions, it will be appreciated if you will take them up with that institution in order that it may answer them if it is in a position to do so or refer them to the Board with such information as may be needed by it."

Approved unanimously.

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Letter to Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, reading as follows:

"Your letter of August 4 to the Chairman in regard to certain proposed changes in the face of the five dollar denomination Federal reserve note designated Series 1934A has been brought to the attention of the Board of Governors.

"It is understood that the adoption of the proposed changes is not intended to affect the existing stock of Federal reserve notes and that it is the intention of the Bureau of Engraving and Printing not only to complete all partially finished notes but to continue to use the existing plates until it is necessary to replace them.

"In these circumstances, the Board sees no objection to the proposed changes and has no suggestions to make regarding them. The model inclosed with your letter of August 4 is returned herewith."

Approved unanimously.

Thereupon the meeting adjourned.

Peter Morie
Secretary.

Approved:

W. C. Taylor
Chairman.