

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, August 3, 1939, at 11:30 a. m.

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

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

The action stated with respect to each of the matters herein after referred to was taken by the Board:

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"In accordance with the recommendation contained in your letter of July 31 on the subject, the Board approves the appointment, effective August 15, 1939, of Clayton Edward Tillander as an examiner for the Federal Reserve Bank of Minneapolis."

Approved unanimously.

Letter to the board of directors of "The Citizens Bank of St. Bernard", St. Bernard, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special conditions, 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 Cleveland:

- "4. Such bank shall make adequate provision for depreciation in its banking house and furniture and fixtures.
- "5. Prior to admission to membership such bank, if it has not already done so, shall charge off or otherwise eliminate estimated losses totaling \$1,762.02

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"as shown in the report of examination of such bank as of June 19, 1939, made by an examiner for the Federal Reserve Bank of Cleveland."

Approved unanimously for transmission through the Federal Reserve Bank of Cleveland.

Telegram to Mr. Gilbert, President of the Federal Reserve Bank of Dallas, reading as follows:

"The Board will not object to retirement of capital debentures by Security State Bank and Trust Company of Beaumont, Beaumont, Texas, subject to conditions referred to in your letter of July 28 regarding the establishment of a reserve for dividends payable in common stock, and provided further that the setting aside of such reserve is authorized by appropriate action of the bank's board of directors.

"Question of whether such reserve may be considered as capital or surplus for the purpose of determining the eligibility of paper offered for rediscount with you is covered by Board's letter S-101 dated June 7, 1938."

Approved unanimously.

Letter to "The Union City National Bank", Union City, Michigan, reading as follows:

"This refers to the resolution adopted on February 8, 1939, by the board of directors of your bank, signifying the bank's desire to surrender its right to exercise fiduciary powers heretofore granted to it.

"The Board, understanding that your bank has never actually accepted or undertaken the exercise of any trust, has issued a formal certificate to your bank certifying that it is no longer authorized to exercise any of the fiduciary powers covered by the provisions of section 11(k) of the Federal Reserve Act, as amended. This certificate is enclosed herewith.

"In this connection, your attention is called to the fact that, under the provisions of section 11(k) of the Federal Reserve Act, as amended, when such a certificate has been issued by the Board of Governors of the Federal Reserve System to a national bank, such bank (1) shall no longer be subject to the provisions of section 11(k)

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"of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, (2) shall be entitled to have returned to it any securities which it may have deposited with the State or similar authorities for the protection of private or court trusts, and (3) shall not exercise any of the powers conferred by section 11(k) of the Federal Reserve Act except with the permission of the Board of Governors of the Federal Reserve System."

Approved unanimously.

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

"The Board of Governors has considered the application of the Pan American Trust Company, New York, New York, for permission to create acceptance liability on drafts or bills of exchange to an amount not exceeding at any one time in the aggregate one hundred per centum of its capital and surplus. The application was transmitted with Mr. Dillistin's letter of May 26, 1939, and, as you were advised in the Board's letter of June 1, 1939, consideration was deferred until the report of a current examination was received.

"Pursuant to the provisions of Section 13 of the Federal Reserve Act, the Board of Governors of the Federal Reserve System authorizes the Pan American Trust Company, New York, New York, to accept drafts or bills of exchange to an amount (which amount shall include any drafts and bills of exchange accepted by other banks for its account) not exceeding at any one time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto.

"Please advise the Pan American Trust Company of the Board's action in the premises."

Approved unanimously.

Letter to Mr. Hitt, First Vice President of the Federal Reserve Bank of St. Louis, reading as follows:

"This refers to your letter of June 30, regarding

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"the reporting, in condition reports and in reports of deposits submitted for reserve computation purposes, of outstanding drafts drawn upon member bank reserve accounts.

"As indicated in the Board's letter R-488 of June 16, 1939, transmitting blank forms for the mid-year call for condition reports upon State bank members, the definition of 'Reserve with Federal Reserve bank', item 7 in Schedule D of form F.R. 105, was amended in view of the Board's letter S-161 of April 26, 1939. That letter merely gives member banks permission to exclude from 'Cash items in process of collection' as shown in condition reports and in reports of deposits submitted for reserve computation purposes, any cash items in process of collection which are included in 'Reserve with Federal Reserve bank' on the member banks' books. Banks which take advantage of such permission are required to carry higher reserves than they otherwise would have to carry, because they do not deduct from gross demand deposits cash items in process of collection with Federal Reserve banks. Moreover, in determining whether or not a member bank has adequate reserves the Federal Reserve bank uses the balance shown by its books (which, of course, does not include cash items for which the member bank has been given deferred credit) rather than the balance shown by the member bank's books.

"In contrast with the above situation, if a member bank should omit outstanding drafts upon its reserve account from deposits as reported for reserve purposes, it would be excluding a class of liabilities which Regulation D specifically defines as deposit liabilities, with the result that its computed reserve requirements would be understated. This understatement of reserve requirements would not be offset by the member bank's charging the outstanding drafts to its reserve account because its reserve balance as shown by the Federal Reserve bank's books, which is the figure used in determining whether reserves are equal to requirements, is not charged until the drafts reach the Federal Reserve bank. Member banks should, therefore, continue to include outstanding drafts on their reserve accounts in demand deposits as shown in reports submitted for reserve computation purposes. Since, however, member bank condition reports are prepared from their general books a bank may in condition reports show deposits as reflected by its books, but any difference between deposits as shown in condition reports and in reports of deposits for reserve purposes should be explained by the member bank."

Approved unanimously.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved: W. C. ...
Chairman.