

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, October 7, 1939, at 11:00 a. m.

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

Mr. Morrill, Secretary
 Mr. Bethea, Assistant Secretary
 Mr. Clayton, Assistant to the Chairman

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on October 6, 1939, were approved unani-mously.

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

"The trust department section of the report of ex-amination of the Springfield Marine Bank, Springfield, Illinois, as of May 1, 1939, includes the following state-ment, (Page T-4(1):

'Pledge of Assets for Trust Deposits.

'In a number of agency and custody agree-ments and in one trust agreement it is provided that the bank shall not be required to pledge bonds for the cash balances of such accounts carried with the bank. The total of the cash balances in such accounts was \$795,466.39 out of total cash of \$1,122,732.18.

'The balances to which the contract exemp-tion does not apply aggregated \$327,265.79, to secure which \$300,000 par value of United States Treasury Notes and \$50,000 par value Home Owners' Loan Corporation 2 $\frac{1}{4}$ % Bonds of 1942-44 were pledged with the Trust Department.'

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"Your attention is invited to the fact that a provision in a trust instrument, such as that referred to above, does not relieve the bank from compliance with its condition of membership numbered 18, which requires that if trust funds held by such bank are deposited in its banking 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.

"It appears that the bulk of the funds deposited by the trust department in the commercial department and not covered by the securities pledged are funds of agency and custody accounts and, therefore, may not be affected by the condition of membership in question (See Board's letter of August 4, 1936, X-9675), but if such funds are received or held in a fiduciary capacity the condition applies, even though the instrument or agreement under which the funds are held provides that the bank shall not be required to pledge security therefor."

Approved unanimously.

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

"Receipt is acknowledged of your letter of September 18, 1939. You refer to the ruling by the Comptroller of the Currency as follows:

'Where bonds of one issuer are guaranteed by an issuer of other securities, the amount of bonds so guaranteed which are held by the bank must be taken into consideration in determining the aggregate amount of securities issued by the guarantor which may be purchased by the bank, under this clause.' (Bulletin of the Comptroller of the Currency, ¶ 480)

"The portion of the provision of the law which the Comptroller, by ruling, has sought to interpret is as follows:

'The business of dealing in securities and stock by the association shall be limited to purchasing and selling such securities and stock without recourse, solely upon the order, and for the account of, customers, and in no case for its own account, and the association shall not

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"underwrite any issue of securities or stock: Provided, That the association may purchase for its own account investment securities under such limitations and restriction as the Comptroller of the Currency may by regulation prescribe. In no event shall the total amount of the investment securities of any one obligor or maker, held by the association for its own account, exceed at any time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund, except that this limitation shall not require any association to dispose of any securities lawfully held by it on the date of enactment of the Banking Act of 1935.' (Banking Act of 1935, ¶ 'Seventh'.)

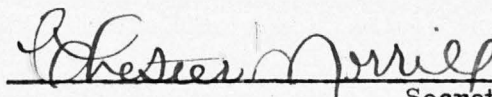
"The Comptroller's Office has clearly ruled and published its ruling in its Bulletin, as you have pointed out in your letter.

"The ruling seems clearly to apply to the bonds of the Dominion of Canada and the Canadian National Railway bonds of 1956, as described by you.

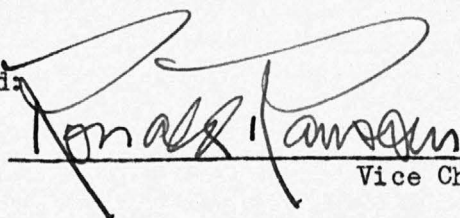
"A check has been made with the Office of the Comptroller of the Currency and there appears to be no inclination on its part to change this ruling."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.