

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, November 7, 1939, at 11:30 a. m.

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

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

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

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on November 3, 1939, were approved unanimously.

Memorandum dated October 24, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, recommending that, for the reason stated in the memorandum, Mrs. Beatrice S. Baldwin, a comptometer operator in the Division of Bank Operations, be transferred to the Division of Research and Statistics, with no change in her present salary at the rate of \$1,620 per annum, and that her title be changed to clerk, effective immediately. The memorandum stated that Mr. Smead, Chief of the Division of Bank Operations, concurred in the recommendation.

The recommendations were approved unanimously.

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Memorandum dated October 26, 1939, from Mr. Morrill recommending, for the reasons stated in the memorandum, that (1) Reginald C. Power, guard, be transferred to the position of junior operator, office devices, effective immediately, with no change in his present salary at the rate of \$1,500 per annum, but with the understanding that he will be recommended for an increase to \$1,620 per annum as soon as he has demonstrated his ability to discharge the duties of the position satisfactorily; (2) Lee W. Langham, elevator operator, be promoted to the position of guard, with salary at the rate of \$1,380 per annum, effective immediately, with the understanding that if his work in the new position during the next six months is entirely satisfactory a further recommendation will be submitted asking that his salary be increased to \$1,500 per annum; and (3) Norbert C. Treacy be appointed as an elevator operator in the Secretary's Office, with salary at the rate of \$1,200 per annum, effective as of the date upon which he enters upon the performance of his duties after having passed satisfactorily the usual physical examination.

The recommendations were approved unanimously.

Memorandum dated November 6, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated November 2 from Mr. McLarin, First Vice President of the Federal Reserve Bank of Atlanta, which requested approval by the Board of a change in the personnel classification plan of the Birmingham Branch of the bank

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to provide for an increase from \$1,800 to \$2,100 per annum in the maximum salary for the position of "General Clerk" in the Fiscal Agency, Custodianship and Depository (R.F.C. Custody) Department. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Letter to the board of directors of "The Citizens Banking Company", Sandusky, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special condition, 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 furniture and fixtures."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The Citizens Banking Company', Sandusky, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the Board of Directors of the institution. Two copies of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

"The Admission Committee recommends a condition of membership to require the elimination of total losses classified in the report of examination for membership. In

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"this connection, however, \$24,000 of the estimated losses represent accrued and unpaid interest on capital debentures. This, of course, should be reported against item 33(a) in call reports of condition and a requirement that the interest be paid or charged to undivided profits and credited to miscellaneous liabilities does not seem appropriate. The examiner reports that the other estimated losses were charged off during the examination, and accordingly a condition regarding elimination of losses has not been prescribed.

"In connection with the bank's capital debentures held locally, it will be recalled, of course, that debentures not held by the Reconstruction Finance Corporation are not to be taken into consideration in figuring the number of shares of Federal Reserve Bank stock to be issued to a member bank."

Letter to the board of directors of "The State Savings Bank Company", Maumee, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H, and the following special condition, 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."

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

"The Board of Governors of the Federal Reserve System approves the application of 'The State Savings Bank Company', Maumee, Ohio, for membership in the Federal Reserve System, subject to the conditions prescribed in the enclosed letter which you are requested to forward to the board of directors of the institution. Two copies

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"of such letter are also enclosed, one of which is for your files and the other of which you are requested to forward to the Superintendent of Banks for the State of Ohio for his information.

"It is assumed that the matter of reducing an excessive balance with a nonmember bank will be followed to a conclusion."

Letter dated November 6, 1939, to the board of directors of "The Vandalia State Bank", Vandalia, Ohio, stating that, subject to conditions of membership numbered 1 to 3 contained in the Board's Regulation H and the following special condition, 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."

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

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

"Reference is made to your letter of October 26, 1939, submitting various documents with respect to the purchase of assets and assumption of deposit liabilities of the Montana State Bank, Philipsburg, Montana, by the Metals Bank & Trust Company, Butte, Montana, which was effected on October 14, 1939.

"From the information submitted it appears that the transaction did not involve any change in the general character of assets or broadening in the functions exercised by the member bank within the meaning of condition numbered 7, under which the bank was admitted to membership.

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"Incidentally it has been noted that the first advice of this transaction was submitted on Form B-12 as of October 18, 1939, which was subsequent to the date on which the transaction was effected. Inasmuch as the acquisition of other institutions through merger, consolidation or purchase may result in a change in the character of assets or scope of corporate powers exercised by the member bank within the meaning of the general condition of membership it is suggested that information regarding such transactions be submitted to the Board for review as promptly as possible together with your recommendation."

Approved unanimously.

On October 9, 1939, Mr. Gidney, Vice President of the Federal Reserve Bank of New York, submitted the application received from The National City Bank of New York, New York, New York, for permission to establish a second branch of the bank in Shanghai, China, and recommended that it be approved. Advice was subsequently received from the Secretary of State and the office of the Comptroller of the Currency, in response to the Board's inquiry of October 16, 1939, that they knew of no objection to the Board granting the application.

Accordingly, the following order was adopted by the Board:

"WHEREAS The National City Bank of New York has made application to the Board of Governors of the Federal Reserve System, pursuant to the provisions of section 25 of the Federal Reserve Act, for permission to establish an additional branch to be located in the French Concession, Shanghai, China; and

"WHEREAS it appears that the said bank may properly be authorized to establish an additional branch to be located in the French Concession, Shanghai, China;

"NOW, THEREFORE, IT IS ORDERED that The National City Bank of New York be and it hereby is authorized to establish an additional branch to be located in the French Concession, Shanghai, China, upon the condition that unless

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"the branch hereby authorized is actually established and opened for business on or before November 1, 1940, all rights hereby granted as to such branch shall be deemed to have been abandoned and the authority hereby granted as to it shall automatically terminate; but, if the branch shall be established and opened for business on or before said date, the said bank may operate and maintain the same subject to the provisions of section 25 of the Federal Reserve Act."

In connection with the above matter, the following letter to Mr. Gidney, Vice President of the Federal Reserve Bank of New York, was also approved unanimously:

"Reference is made to your letter of October 9, 1939, transmitting the application of The National City Bank of New York for permission to establish an additional branch at Shanghai, China.

"Pursuant to the provisions of section 25 of the Federal Reserve Act, the Board of Governors of the Federal Reserve System has authorized The National City Bank of New York to establish an additional branch to be located in the French Concession, Shanghai, China, upon the condition that the branch be actually established and opened for business on or before November 1, 1940.

"There is enclosed herewith a certified copy of the order adopted by the Board authorizing the establishment of the additional branch which you will please deliver to the bank. There is also enclosed a copy of the order for your files. It will be appreciated if you will advise the Board of the date the branch is actually established and opened for business and also of the exact location of the branch."

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

"This refers to your letter of October 27, 1939, transmitting the application of 'The Mount Vernon Trust Company', Mount Vernon, New York, for permission of the Board of Governors, pursuant to the requirements of condition of membership numbered 9, to reduce its common capital from

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"\$1,500,000 to \$300,000 as a part of a plan for rearranging its capital structure. You advise that the plan also contemplates that \$1,500,000 capital debentures presently held by the Reconstruction Finance Corporation will be exchanged by the Corporation for preferred stock with a par value of \$750,000 and retirable at \$1,500,000, and that upon the consummation of the plan the arrearages of interest will be paid.

"In accordance with your recommendation, the Board of Governors of the Federal Reserve System approves the application of The Mount Vernon Trust Company, Mount Vernon, New York, for permission to reduce its common capital from \$1,500,000 to \$300,000, provided that no part of the funds released by the reduction shall be returned to stockholders but shall be used to increase the bank's surplus, undivided profits and reserve accounts and to provide for the elimination of unsatisfactory assets; and for permission to exchange with the Reconstruction Finance Corporation the \$1,500,000 of capital debentures presently held by the Corporation for preferred stock with a par value of \$750,000 and retirable at \$1,500,000. The approval is given in order that the capital adjustment plan as outlined in the bank's letter of October 18, 1939 to the Board and your letter of October 27, 1939 to the Board may be consummated. It is assumed that the proposed adjustments in the capital of the bank have, or will receive, the approval of the New York State Banking Department.

"It is understood that the plan meets with the approval of the Reconstruction Finance Corporation, which has been insistent on the payment of accrued interest on its holdings of debentures issued by the bank and that the situation has been discussed informally with representatives of the Federal Deposit Insurance Corporation who indicated that they saw no reason to interpose any objection to the plan.

"It will be appreciated if you will advise the Board when the adjustments of capital have been consummated, together with full information regarding the elimination of unsatisfactory assets through chargeoffs and the establishment of valuation reserves."

Approved unanimously.

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

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"Receipt is acknowledged of your letter of October 27, addressed to Mr. Paulger, outlining the reasons for permitting the Exchange State Bank, Lanark, Illinois, to be admitted to membership without complying with the requirements of a condition of membership prescribed by the Board and giving assurance that a similar situation will not arise in the future.

"You state that in view of certain circumstances, you felt forced to take a broad view of the matter and that you were not in a position to demand that the salary agreement with Mr. Verbest for the year 1939 be terminated immediately. You report, however, that the cashier of the bank has advised that he is confident that an adjustment in the salary matter will be made for the year 1940.

"The Board trusts that an entirely satisfactory adjustment of the matter will be made at the annual meeting of the bank in January, if not before, and is relying upon the Federal Reserve Bank to see that this is accomplished."

Approved unanimously.

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

"Reference is made to your letter of October 20 regarding the examination program for the current year. It is noted that you expect to complete examinations of all State member banks during the calendar year with the exception of the Oklahoma State Bank, of Ada, Oklahoma, which you propose to examine early in the spring of 1940, if permitted to defer the examination until that date. It is understood that the reason for the request is in order to accommodate the Oklahoma State Banking Department.

"In view of the condition of the bank as reflected in the report of examination made as of November 29, 1938, by your examiner, the Board will interpose no objection to your plan of deferring the examination until early spring. It is hoped, however, that the schedules will be so coordinated next year that no exception to the general policy of making an examination of each State member bank at least once during the calendar year will be necessary."

Approved unanimously.

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

"Reference is made to your letter of October 24, 1939, which forwarded photostatic copies of relevant instruments and discussed certain questions connected with the execution of an agreement by the Swiss Bank Corporation, Basle, Switzerland, pursuant to section 8(a) of the Securities Exchange Act of 1934.

"As indicated in your letter, the agreement on Form F.R. T-2 appears to be in proper form except for the fact that it has been executed by Dr. Max Staehelin, Chairman of the Board of Directors, rather than by Maurice Golay, General Manager of the Bank, as specified in the certified resolution adopted by the Board of Directors on October 3, 1939. The second instrument purports to constitute the execution by Mr. Golay of the agreement on Form F.R. T-2. You state that White & Case, Esq., 14 Wall Street, New York City, counsel to the Swiss Bank Corporation, have advised that, in their opinion, by virtue of these instruments a valid agreement on Form F.R. T-2 has been executed by duly authorized officers of Swiss Bank Corporation and is binding on the corporation.

"It is noted that you also were informed by Messrs. White & Case that Mr. Golay is expected to be in New York soon, at which time he will call upon you and sign the agreement on Form F.R. T-2, so that his signature will appear thereon as well as that of Dr. Staehelin; and that when he executes the duplicate originals you will forward an original counterpart to the Board.

"In the circumstances it seems that Swiss Bank Corporation should, as indicated by your issuance to the corporation of a certificate on Form F.R. T-3, properly be considered as having filed an effective agreement under section 8(a) of the Securities Exchange Act of 1934; and the name of the corporation is accordingly being added to the list of nonmember banks that have in force such agreements with the Board."

Approved unanimously.

Memorandum dated October 31, 1939, from Mr. Goldenweiser, Director of the Division of Research and Statistics, reading as follows:

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"There are requests from time to time from various individuals for data on the amount of gold under earmark in this country. Since the Bulletin publishes the figures regularly and changes from week to week are given out by the Department of Commerce, I see no reason why the Board should not, in response to inquiries, give out weekly totals, which can be derived from official sources in any case. We propose to do so, unless the Board objects."

The proposed procedure outlined in the memorandum was approved unanimously.

Memorandum dated October 24, 1939, from Mr. Wingfield, Assistant General Counsel, recommending that, for the reasons stated in the memorandum, the Board's Regulation F, Trust Powers of National Banks, be amended as set forth in the memorandum.

In accordance with Mr. Wingfield's recommendation the following resolution was adopted by unanimous vote:

RESOLVED, That effective November 20, 1939, Regulation F, Trust Powers of National Banks, be amended in the following respects:

1. At the end of the caption of section 11 insert the figure "12" as a designation for a footnote and insert the following footnote at the bottom of the page on which such caption appears:

"¹²The requirements of this section shall not be deemed to prohibit the making of any investments or the carrying out of any transactions which are expressly required by the instrument creating the trust or are specifically authorized by court order."

2. After the word "interests" in subsections (a) and (b) of section 11, insert the figure "13" as a designation for a footnote and the following footnote at the bottom of the page on which such word appears:

"¹³Under recognized principles of sound practice regarding the handling of trust assets,

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"a trustee or other fiduciary should not have any interest, direct or indirect, in the assets of a trust except as a fiduciary; and the requirements of this section contemplate that the national bank will not invest trust funds in the stock or obligations of, or property acquired from, any organization in which officers, directors, or employees of the bank have such an interest as might affect the exercise of the best judgment of the management of the bank in investing trust funds and that the national bank will not sell or transfer trust assets to any organization in which the officers, directors, or employees of the bank have such an interest as might affect the exercise of the best judgment of the management of the bank in selling or transferring trust assets."

3. Strike out the figure "12" designating a footnote at the end of subsection (a) of section 11, together with footnote 12, and change the footnote numbering throughout the remainder of the regulation so as to conform to the above amendment.

4. In subsection (a) of section 17 and in the footnote 16 thereof, strike out the words "Revenue Act of 1936" and insert in lieu thereof "Internal Revenue Code".

Memorandum dated October 10, 1939, from Mr. Wingfield, Assistant General Counsel, recommending that, for the reasons stated in the memorandum, the Board's Regulation H, Membership of State Banking Institutions in the Federal Reserve System, be amended as set forth in an attachment to the memorandum and that it be reprinted in the amended form.

In accordance with Mr. Wingfield's recommendation the following resolution was adopted by unanimous vote:

RESOLVED, That effective November 20, 1939, Regulation H, Membership of State Banking Institutions in the Federal Reserve System, be amended to read as follows:

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"REGULATION H

As Amended, Effective November 20, 1939

"MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE
FEDERAL RESERVE SYSTEM

"AUTHORITY FOR REGULATION

"This regulation is based upon and issued pursuant to provisions of section 9 of the Federal Reserve Act and related provisions of law.

"SECTION 1. DEFINITIONS

"For the purposes of this regulation--

"(a) The term 'State bank' means any bank or trust company incorporated under a special or general law of a State or under a general law for the District of Columbia, any mutual savings bank (unless otherwise indicated), and any Morris Plan bank or other incorporated banking institution engaged in similar business.¹

"(b) The term 'mutual savings bank' means a bank without capital stock transacting a savings bank business, the net earnings of which inure wholly to the benefit of its depositors after payment of obligations for any advances by its organizers, and in addition thereto includes any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends.

"(c) The term 'Board' means the Board of Governors of the Federal Reserve System.

¹Under the provisions of section 19 of the Federal Reserve Act, national banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. However, this Regulation H is applicable only to the admission of banks eligible for admission to membership under section 9 of the Federal Reserve Act and does not cover the admission of banks eligible under section 19 of the Act. Any bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve bank with which it desires to do business.

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"(d) The term 'board of directors' means the governing board of any institution performing the usual functions of a board of directors.

"(e) The term 'Federal Reserve bank stock' includes the deposit which may be made with a Federal Reserve bank in lieu of a subscription for stock by a mutual savings bank which is not permitted to purchase stock in a Federal Reserve bank, unless otherwise indicated.

"(f) The terms 'capital' and 'capital stock' mean common stock, preferred stock, and legally issued capital notes and debentures purchased by the Reconstruction Finance Corporation which may be considered capital and capital stock for purposes of membership in the Federal Reserve System under the provisions of section 9 of the Federal Reserve Act.

"SECTION 2. ELIGIBILITY REQUIREMENTS

"Under the terms of section 9 of the Federal Reserve Act, as amended, to be eligible for admission to membership in the Federal Reserve System--

"(1) A State bank, other than a mutual savings bank, must possess a paid-up, unimpaired² capital sufficient to entitle it to become a national banking association in the place where it is situated

²Section 345 of the Banking Act of 1935 provides in part that: 'If any part of the capital of a national bank, State member bank, or bank applying for membership in the Federal Reserve System consists of preferred stock, the determination of whether or not the capital of such bank is impaired and the amount of such impairment shall be based upon the par value of its stock even though the amount which the holders of such preferred stock shall be entitled to receive in the event of retirement or liquidation shall be in excess of the par value of such preferred stock. If any such bank or trust company shall have outstanding any capital notes or debentures of the type which the Reconstruction Finance Corporation is authorized to purchase pursuant to the provisions of section 304 of the Emergency Banking and Bank Conservation Act, approved March 9, 1933, as amended, the capital of such bank may be deemed to be unimpaired if the sound value of its assets is not less than its total liabilities, including capital stock, but excluding such capital notes or debentures and any obligations of the bank expressly subordinated thereto.'

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"under the provisions of the National Bank Act, except in the following circumstances, in which case such a bank may be admitted to membership with a lesser capital as indicated:

"(A) Any such institution organized prior to June 16, 1933 (the date of the approval of the Banking Act of 1933) situated in a place the population of which does not exceed 3,000 inhabitants and at the time of admission having a capital of not less than \$25,000;

"(B) Any such institution (whether or not organized prior to June 16, 1933) situated in a place the population of which does not exceed 3,000 inhabitants and which at the time of admission is entitled to the benefits of insurance under section 12B of the Federal Reserve Act and has a capital of not less than \$25,000.

"(2) A mutual savings bank must possess surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the place where it is situated.

"(3) The minimum capital required for the organization of a national bank, referred to hereinbefore in connection with the capital required for admission to membership in the Federal Reserve System, is as follows:

If located in a city or town with a population-	Minimum Capital
Not exceeding 6,000 inhabitants	\$ 50,000
Exceeding 6,000 but not exceeding 50,000 inhabitants	100,000
Exceeding 50,000 inhabitants (except as stated below)	200,000
In an outlying district of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of \$100,000 or less	100,000

"SECTION 3. INSURANCE OF DEPOSITS

"Any State bank becoming a member of the Federal Reserve System after the date of the enactment of the Banking Act of

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"1935 (August 23, 1935) and which is not at the time an insured bank under the provisions of section 12B of the Federal Reserve Act, will become an insured bank under the provisions of that section on the date upon which it becomes a member of the Federal Reserve System.⁵ In the case of an insured bank which is admitted to membership in the Federal Reserve System, the bank will continue to be an insured bank.

"SECTION 4. APPLICATION FOR MEMBERSHIP

"(a) State bank, other than a mutual savings bank. - A State bank, other than a mutual savings bank, applying for membership, shall make application on Form 83A to the Board for an amount of capital stock in the Federal Reserve bank of its district equal to six per cent of the paid-up capital stock and surplus of the applying institution.

"(b) Mutual savings bank. - A mutual savings bank applying for membership shall make application on Form 83B to the Board for an amount of capital stock in the Federal Reserve bank of its district equal to six-tenths of one per cent of its total deposit liabilities as shown by the most recent report of examination of such institution preceding its admission to membership, or, if such institution be not permitted by the laws under which it was organized to purchase stock in a Federal Reserve bank, on Form 83C, for permission to deposit with the Federal Reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

⁵In the case of a State bank which at the time of its admission to membership in the Federal Reserve System is not an insured bank, the Board is required under the provisions of subsections (e) and (g) of section 12B of the Federal Reserve Act to issue a certificate to the Federal Deposit Insurance Corporation to the effect that the bank is a member of the Federal Reserve System and that consideration has been given to the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served by the bank, and whether or not its corporate powers are consistent with the purposes of section 12B of the Federal Reserve Act.

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"(c) Mutual savings bank not authorized to purchase stock of Federal Reserve bank at time of admission. - If a mutual savings bank be admitted to membership on the basis of a deposit of the required amount with the Federal Reserve bank in lieu of payment upon capital stock because the laws under which such bank was organized do not at that time authorize it to purchase stock in the Federal Reserve bank, it shall subscribe on Form 83D for the appropriate amount of stock in the Federal Reserve bank whenever such laws are amended so as to authorize it to purchase stock in a Federal Reserve bank.⁴

"(d) Execution and filing of application. - Each application made under the provisions of this section and the exhibits referred to in the application blank shall be executed and filed, in duplicate, with the Federal Reserve bank of the district in which the applying bank is located.

"SECTION 5. APPROVAL OF APPLICATION

"(a) Matters given special consideration by Board. - In passing upon an application, the following matters will be given special consideration:

- "(1) The financial history and condition of the applying bank and the general character of its management;
- "(2) The adequacy of its capital structure and its future earnings prospects;
- "(3) The convenience and needs of the community to be served by the bank; and
- "(4) Whether its corporate powers are consistent with the purposes of the Federal Reserve Act.

⁴The Federal Reserve Act provides that, if the laws under which any such savings bank was organized be not amended at the first session of the legislature following the admission of the savings bank to membership so as to authorize mutual savings banks to purchase Federal Reserve bank stock, or if such laws be so amended and the bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed in section 9 of the Federal Reserve Act.

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"(b) Procedure for admission to membership after approval of application. - If an applying bank conforms to all the requirements of the Federal Reserve Act and this regulation and is otherwise qualified for membership, its application will be approved subject to such conditions as may be prescribed pursuant to the provisions of the Federal Reserve Act. When the conditions prescribed have been accepted by the applying bank, it should pay to the Federal Reserve bank of its district one-half of the amount of its subscription and, upon receipt of advice from the Federal Reserve bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend.⁵ The remaining half of the bank's subscription shall be subject to call when deemed necessary by the Board. The bank's membership in the Federal Reserve System shall become effective on the date as of which a certificate of stock of the Federal Reserve bank is issued to it pursuant to its application for membership or, in the case of a mutual savings bank which is not authorized to subscribe for stock, on the date as of which a certificate representing the acceptance of a deposit with the Federal Reserve bank in place of a payment on account of a subscription to stock is issued to it pursuant to its application for membership.

"SECTION 6. CONDITIONS OF MEMBERSHIP

"(a) Conditions applicable to all institutions applying for membership. - Pursuant to the authority contained in the first paragraph of section 9 of the Federal Reserve Act, which authorizes the Board to permit applying State banks to become members of the Federal Reserve System 'subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto,' the Board except as hereinafter stated, will prescribe the following conditions of membership for each State bank hereafter applying for admission to the Federal Reserve System, and, in addition,

⁵In the case of a mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in a Federal Reserve bank, it shall deposit with the Federal Reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock.

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"such other conditions as may be considered necessary or advisable in the particular case--

"1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank 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.⁶

"2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities,⁷ and

"⁶If, after admission of any bank to membership, it should desire to make any change in the general character of its business or in the scope of its corporate powers exercised at the time of admission, it will be necessary for it to obtain the permission of the Board before making any such change.

"The acquisition by a bank of the assets of another institution through merger, consolidation, or purchase may result in a change in the character of its assets or the scope of its functions within the meaning of condition numbered 1, and if at any time a member State bank subject to such condition anticipates making any such acquisition a detailed report setting forth all of the facts in connection with the transaction should be made promptly to the Federal Reserve bank of the district in which such bank is located.

"⁷If at any time, in the light of all the circumstances, the aggregate amount of the bank's net capital and surplus funds appears to be inadequate, the bank, within such period as shall be deemed by the Board to be reasonable for this purpose, shall increase the amount thereof to an amount which in the judgment of the Board shall be adequate in relation to the bank's aggregate deposit liabilities and other corporate responsibilities.

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"its capital⁸ shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System.⁹

"3. Such bank 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 bank or an affiliated corporation.¹⁰

"(b) Conditions applicable to institutions exercising trust powers. - The Board will also prescribe for each trust company or State bank exercising trust powers at the time of its admission to membership the following conditions of membership which are appropriate for institutions exercising trust powers:

"4. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates

"⁸This applies to capital stock of all classes and to capital notes and debentures legally issued and purchased by the Reconstruction Finance Corporation which, under the Federal Reserve Act, are considered as capital for purposes of membership.

"A reduction in capital, however, shall not be deemed to be contrary to this provision if, at the same time, the capital is correspondingly increased or a specific reserve in an amount not less than the amount of the capital reduction is set aside to provide for an increase in capital and can be used for no other purpose; provided, of course, the transaction does not violate any provision of applicable laws.

"⁹This condition will not be prescribed in connection with the admission of mutual savings banks to membership in the Federal Reserve System.

"¹⁰This condition does not apply to the sale of mortgages covered by insurance under the provisions of the National Housing Act.

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"of the bank.¹¹

"5. Such bank, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts¹² and separate also from the properties of the bank itself.¹³

"6. 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

"¹¹Under recognized principles of sound practice regarding the handling of trust assets, a trustee or other fiduciary should not have any interest, direct or indirect, in the assets of a trust except as a fiduciary; and the condition contemplates that a trust institution will not invest trust funds in the stock or obligations of, or property acquired from, any organization in which officers, directors, or employees of the trust institution have such an interest as might affect the exercise of the best judgment of the management of the trust institution in investing trust funds.

"The requirements of this condition shall not be deemed to prohibit the making of any investments or the carrying out of any transactions which are expressly required by the instrument creating the trust or are specifically authorized by court order.

"¹²This does not prevent a bank from investing the funds of several trusts in a single real estate loan of the kind which could be made by a national bank under the provisions of section 24 of the Federal Reserve Act, as amended, if the bank owns no participation in the loan and has no interest therein except as trustee or other fiduciary.

"¹³Requirements relating to collective investment of trust funds by national banks are contained in the Board's Regulation F.

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"of national banks exercising fiduciary powers.¹⁴

"SECTION 7. POWERS AND RESTRICTIONS

"Every State bank while a member of the Federal Reserve System--

"(a) Shall retain its full charter and statutory rights subject to the provisions of the Federal Reserve Act and other Acts of Congress applicable to member State banks, to the regulations of the Board made pursuant to law, and to the conditions prescribed by the Board and agreed to by such bank prior to its admission;

"(b) Shall enjoy all the privileges and observe all the requirements of the Federal Reserve Act and other Acts of Congress applicable to member State banks and of the regulations of the Board made pursuant to law which are applicable to member State banks; and

"(c) Shall comply at all times with any and all conditions of membership prescribed by the Board in connection with the admission of such bank to membership in the Federal Reserve System.

"SECTION 8. ESTABLISHMENT OR MAINTENANCE OF BRANCHES

"(a) In general. - Every State bank which is or hereafter becomes a member of the Federal Reserve System is subject to the provisions of section 9 of the Federal Reserve Act relating to the establishment and maintenance of branches in the United States or in a dependency or insular possession thereof or in a foreign country. Under the provisions of section 9, member State banks establishing and operating

¹⁴Such requirements applicable to national banks are contained in section 11(k) of the Federal Reserve Act and the Board's Regulation F issued pursuant to section 11(k)

"In cases where trust funds are fully protected by a statutory preference in all of the assets of the bank over its general creditors, the Board may waive compliance with this condition. However, if compliance be waived in any case, the Board expressly reserves the right to require compliance with the condition if, at any time, it feels that such trust funds are not adequately protected.

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"branches in the United States beyond the corporate limits of the city, town, or village in which the parent bank is situated must conform to the same terms, conditions, limitations, and restrictions as are applicable to the establishment of branches by national banks under the provisions of section 5155 of the Revised Statutes of the United States relating to the establishment of branches in the United States, except that the approval of any such branches must be obtained from the Board rather than from the Comptroller of the Currency. Under the provisions of section 9, member State banks establishing and operating branches in a dependency or insular possession of the United States or in a foreign country must conform to the terms, conditions, limitations, and restrictions contained in section 25 of the Federal Reserve Act relating to the establishment by national banks of branches in such places. The principal applicable provisions of law have been interpreted as follows:

"(b) Branches in the United States. --

"1. Branches established within the corporate limits of the city, town, or village in which the parent bank is situated do not require the approval of the Board.

"2. Before a member State bank establishes a branch beyond the corporate limits of the city, town, or village in which it is situated, it must obtain the approval of the Board.

"3. Before any nonmember State bank having a branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated is admitted to membership in the Federal Reserve System, it must obtain the approval of the Board for the retention of such branches; and any provisions contained in this section of this regulation which by their terms relate to the establishment or retention of branches by member State banks are equally applicable to the retention by a nonmember State bank applying for membership and having any branches previously established.

"4. A member State bank located in a State which by statute law permits the maintenance of branches within county or greater limits may, with the approval of the Board, establish and

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"operate, without regard to the capital requirements of section 5155 of the Revised Statutes, a seasonal agency in any resort community within the limits of the county in which the main office of such bank is located for the purpose of receiving and paying out deposits, issuing and cashing checks and drafts, and doing business incident thereto, if no bank is located and doing business in the place where the proposed agency is to be located; and any permit issued for the establishment of such an agency shall be revoked upon the opening of a State or national bank in the community where the agency is located.

"5. Except as stated in the immediately preceding paragraph, a member State bank which establishes a branch beyond the corporate limits of the city, town, or village in which it is situated must have a paid-in and unimpaired capital stock of not less than \$500,000, except that, in a State with a population of less than 1,000,000, and which has no city located therein with a population exceeding 100,000, the capital stock shall be not less than \$250,000, and except that, in a State with a population of less than 500,000, and which has no city located therein with a population exceeding 50,000, the capital stock shall be not less than \$100,000. In any such case, the aggregate capital stock of the member State bank and its branches shall at no time be less than the aggregate minimum capital stock required by law for the establishment of an equal number of national banking associations situated in the various places where such member State bank and its branches are situated.

"6. A member State bank may not establish a branch beyond the corporate limits of the city, town, or village in which it is situated unless such establishment and operation are at the time authorized to State banks by the statute law of the State in question by language specifically granting such authority affirmatively and not merely by implication or recognition, and subject to the restrictions as to location imposed by the law of the State on State banks.

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"7. Any member State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal Reserve System, regardless of the location of such branch or branches.

"8. In order to remain a member of the Federal Reserve System, every member State bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated, unless such branch or branches are in conformity with or are brought into conformity with the same terms, conditions, limitations, and restrictions as would be applicable in the case of the establishment of such branches.

"9. The removal of a branch from one town to another town constitutes the establishment of a branch in such other town within the meaning of the provisions of the Federal Reserve Act.

"(c) Application for approval of branches in United States. - Any member State bank desiring to establish a branch beyond the corporate limits of the city, town, or village in which it is located and any nonmember State bank applying for membership and desiring to retain any branch established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the bank is situated should submit a request for the approval by the Board of any such branch to the Federal Reserve bank of the district in which the bank is located. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

"(d) Foreign branches. - Before a member State bank establishes a branch in a foreign country, or dependency or insular possession of the United States, it must have a capital and surplus of \$1,000,000 or more and obtain the approval of the Board.

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"(e) Application for approval of foreign branches. - Any member State bank desiring to establish such a branch and any nonmember State bank applying for membership and desiring to retain any such branch established after February 25, 1927, should submit a request for the approval by the Board of any such branch to the Federal Reserve bank of the district in which the bank is located. Any such request should be accompanied by advice as to the scope of the functions and the character of the business which are or will be performed by the branch and detailed information regarding the policy followed or proposed to be followed with reference to supervision of the branch by the head office; and the bank may be required in any case to furnish additional information which will be helpful to the Board in determining whether to approve such request.

"SECTION 9. PUBLICATION OF REPORTS OF MEMBER BANKS AND THEIR AFFILIATES¹⁵

"(a) Reports of member banks. - Each report of condition made by a member State bank, which is required to be made to the Federal Reserve bank of its district as of call dates fixed by the Board of Governors of the Federal Reserve System, shall be published by such member bank within twenty days from the date the call therefor is issued.

"The report shall be printed in the newspaper published in the place where the bank is located or, if there be no newspaper published in the place where the bank is located,

¹⁵Under the provisions of section 9 of the Federal Reserve Act, reports of condition of member State banks which, under that section, must be made to the respective Federal Reserve banks on call dates fixed by the Board of Governors of the Federal Reserve System 'shall be published by the reporting banks in such manner and in accordance with such regulations as the said Board may prescribe'.

"Section 9 also provides that the reports of affiliates of a member State bank which are required by that section to be furnished to the respective Federal Reserve banks 'shall be published by the bank under the same conditions as govern its own condition reports'. The term 'affiliates', as used in this provision of section 9, under the express terms of that section, includes 'holding company affiliates as well as other affiliates', but a member State bank is not required to furnish to a Federal Reserve bank the report of an affiliated member bank.

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"then in a newspaper published in the same or in an adjoining county and in general circulation in the place where the bank is located. The term 'newspaper', for the purpose of this regulation, means a publication with a general circulation published not less frequently than once a week, one of the primary functions of which is the dissemination of news of general interest.

"The copy of the report for the use of the printer for publication should be prepared on Form 105e. The published information shall agree in every respect with that shown on the face of the condition report rendered to the Federal Reserve bank, except that any item for which no amount is reported may be omitted in the published statement. All signatures shall be the same in the published statement as in the original report submitted to the Federal Reserve bank, but the signatures may be typewritten or otherwise copied on the report for publication.

"A copy of the printed report shall be submitted to the Federal Reserve bank attached to the certificate on Form 105e.

"(b) Reports of affiliates.¹⁶ - Each report of an affiliate of a member State bank, including a holding company affiliate, shall be published at the same time and in the same newspaper as the affiliated bank's own condition report submitted to the Federal Reserve bank, unless an extension of time for submission of the report of the affiliate has been granted under authority of the Board of Governors of the Federal Reserve System. When such extension of time has been granted, the report of the

¹⁶Section 21 of the Federal Reserve Act, among other things, provides as follows: 'Whenever member banks are required to obtain reports from affiliates, or whenever affiliates of member banks are required to submit to examination, the Board of Governors of the Federal Reserve System or the Comptroller of the Currency, as the case may be, may waive such requirements with respect to any such report or examination of any affiliate if in the judgment of the said Board or Comptroller, respectively, such report or examination is not necessary to disclose fully the relations between such affiliate and such bank and the effect thereof upon the affairs of such bank.' Therefore, of course, in any case where the Board of Governors waives the filing of a report of an affiliate of a member State bank, no publication of a report of such affiliate is required.

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"affiliate must be submitted and published before the expiration of such extended period in the same newspaper as the condition report of the bank was published.

"The copy of the report for the use of the printer for publication should be prepared on Form 220a. The published information shall agree in every respect with that shown on the face of the report of the affiliate furnished to the Federal Reserve bank by the affiliated member bank, except that any item appearing under the caption 'Financial relations with bank' against which the word 'none' appears on the report furnished to the Federal Reserve bank may be omitted in the published statement of the affiliate, provided that if the word 'none' is shown against all of the items appearing under such caption in the report furnished to the Federal Reserve bank the caption 'Financial relations with bank' shall appear in the published statement followed by the word 'none.' All signatures shall be the same in the published statement as in the original report submitted to the Federal Reserve bank, but the signatures may be typewritten or otherwise copied on the report for publication.

"A copy of the printed report shall be submitted to the Federal Reserve bank attached to the certificate on Form 220a.

"SECTION 10. VOLUNTARY WITHDRAWAL FROM
FEDERAL RESERVE SYSTEM

"(a) General. - Any State bank desiring to withdraw from membership in a Federal Reserve bank may do so after six months' written notice has been filed with the Board;¹⁷ and the Board, in its discretion, may waive such six months' notice in any individual case and may permit such bank to withdraw from membership in a Federal Reserve bank, subject to such conditions as the Board may prescribe, prior to the

¹⁷ Under specific provisions of section 9 of the Federal Reserve Act, however, no Federal Reserve bank shall, except upon express authority of the Board, cancel within the same calendar year more than twenty-five per cent of its capital stock for the purpose of effecting voluntary withdrawals during that year. All applications for voluntary withdrawals are required by the law to be dealt with in the order in which they are filed with the Board.

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"expiration of six months from the date of the written notice of its intention to withdraw.

"(b) Notice of intention of withdrawal. - Any State bank desiring to withdraw from membership in a Federal Reserve bank should signify its intention to do so in a letter addressed to the Board and mailed to the Federal Reserve bank of which such bank is a member. Such letter should state clearly the reason for the bank's desire to withdraw. Any such bank desiring to withdraw from membership prior to the expiration of six months from the date of written notice of its intention to withdraw should so state in the letter signifying its intention to withdraw and should state the reason for its desire to withdraw prior to the expiration of six months.

"Every notice of intention of a bank to withdraw from membership in the Federal Reserve System and every application for the waiver of such notice should be accompanied by a certified copy of a resolution duly adopted by the board of directors of such bank authorizing the withdrawal of such bank from membership in the Federal Reserve System and authorizing a certain officer or certain officers of such bank to file such notice or application, to surrender for cancellation the Federal Reserve bank stock held by such bank, to receive and receipt for any moneys or other property due to such bank from the Federal Reserve bank and to do such other things as may be necessary to effect the withdrawal of such bank from membership in the Federal Reserve System.

"Notice of intention to withdraw or application for waiver of six months' notice of intention to withdraw by any bank which is in the hands of a conservator or other State official acting in a capacity similar to that of a conservator should be accompanied by advice from the conservator or other such State official that he joins in such notice or application.

"(c) Time and method of effecting actual withdrawal. - Upon the expiration of six months after notice of intention to withdraw or upon the waiving of such six months' notice by the Board, such bank may surrender its stock and its certificate of membership to the Federal Reserve bank and request that same be canceled and that all amounts due to

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"it from the Federal Reserve bank be refunded.¹⁸ Unless this is done within two months after the expiration of such six months' notice or after the waiver of such notice by the Board, or unless the bank requests and the Board grants an extension of time, such bank will be presumed to have abandoned its intention of withdrawing from membership and will not be permitted to withdraw without again giving six months' written notice or obtaining the waiver of such notice.

"(d) Withdrawal of notice. - Any bank which has given notice of its intention to withdraw from membership in a Federal Reserve bank may withdraw such notice at any time before its stock has been canceled and upon doing so may remain a member of the Federal Reserve System. The notice rescinding the former notice should be accompanied by a certified copy of an appropriate resolution duly adopted by the board of directors of the bank.

"SECTION 11. BOARD FORMS

"All forms referred to in this regulation and all such forms as they may be amended from time to time shall be a part of this regulation.

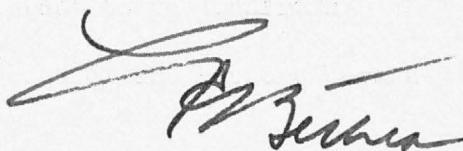
¹⁸A bank's withdrawal from membership in the Federal Reserve System is effective on the date on which the Federal Reserve bank stock held by it is duly canceled. Until such stock has been canceled, such bank remains a member of the Federal Reserve System, is entitled to all the privileges of membership, and is required to comply with all provisions of law and all regulations of the Board pertaining to member banks and with all conditions of membership applicable to it. Upon the cancellation of such stock, all rights and privileges of such bank as a member bank shall terminate.

"Upon the cancellation of such stock, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve bank, such bank shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per cent per month from the date of last dividend, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to the repayment of deposits and of any other balance due from the Federal Reserve bank."

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Thereupon the meeting adjourned.



Assistant Secretary.

Approved:



Chairman.