Minutes of actions taken by the Board of Governors of the Federal Reserve System on Thursday, January 12, 1950.

PRESENT: Mr. McCabe, Chairman
Mr. Szymczak
Mr. Draper
Mr. Vardaman
Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Board

Minutes of actions taken by the Board of Governors of the Federal Reserve System on January 11, 1950, were approved unanimously.

Memorandum dated January 11, 1950, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the resignation of Mrs. Mary S. Hummel, a page in that Division, be accepted to be effective, in accordance with her request, at the close of business January 27, 1950.

Approved unanimously.

Memorandum dated January 10, 1950, from Mr. Young, Director of the Division of Research and Statistics, recommending an increase in the basic salary of Marilyn Marlor, a clerk in that Division, from $2,450 to $2,530 per annum, effective January 22, 1950.

Approved unanimously.

Letter to Mr. Schlaikjer, Vice President and General Counsel of the Federal Reserve Bank of Boston, reading as follows:

"This refers to your letter of December 22, 1949, enclosing copies of your correspondence with Mr. Oliver
Wolcott, Vice President, Old Colony Trust Company, Boston, Massachusetts, concerning the interpretation of the following provision of section 17(c)(5) of Regulation F:

'No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having invested in the aggregate in the Common Trust Fund an amount in excess of 10 per cent of the value of the assets of the Common Trust Fund at the time of investment, as determined by the trust investment committee, or the sum of $50,000, whichever is less.' (Underscoring supplied.)

The question presented by Mr. Wolcott is whether in a case in which a trust now holds a participation in a common trust fund, the additional amount, if any which the trust may invest in the common trust fund is determined by the amount which the trust invested in the participation which it now holds or by the present value of such participation. As an example, Mr. Wolcott assumes a case in which a trust paid $25,000 for a participation which now has a value of $24,000, and he inquires whether the additional amount which could be invested by the trust is $25,000 or $26,000.

As you point out, the Board, in a ruling published in the Federal Reserve Bulletin for September 1938 at page 762, took the position that the present value of a trust's participation was the determinative factor. However, at that time and until it was amended effective September 1, 1945, the pertinent provision of Regulation F read as follows:

'No funds of any trust shall be invested in a participation in a Common Trust Fund if such investment would result in such trust having an interest in the Common Trust Fund in excess of 10 per cent of the value of the assets of the Common Trust Fund, as determined by the trust investment committee, or the sum of $25,000, whichever is less at the time of investment.' (Underscoring supplied.)

The amendment in 1945, in addition to raising the limit from $25,000 to $50,000, was intended to nullify the 1938 ruling and to provide that the amount invested by a trust should govern in applying this limitation. It was
for this purpose that the words 'having invested in the aggregate in the Common Trust Fund an amount' were substituted for the words 'having an interest in the Common Trust Fund'.

"Incidentally, in amending the regulation in this respect, the Board was following a recommendation made by the Committee on Common Trust Funds of the Trust Division of the American Bankers Association; and in an article published in The Trust Bulletin for September 1945, Mr. George C. Barclay, then Chairman of the Committee, commented as follows concerning this amendment:

'Another helpful amendment is one which provides that the $50,000 limitation shall be based upon the original amount invested in the participation rather than upon the current value of participations from time to time. Under the regulation before its amendment, a given trust was permitted to invest more than $25,000 in a common trust fund under certain circumstances. For example, if the trust originally invested $15,000, and when it desired to acquire a further participation the first participation had depreciated so that it was worth only $14,000, then the trust could invest $11,000 more. Thus it actually would have made an investment of $26,000 in the fund. Under the new amendment it does not make any difference how much an originally acquired participation fluctuates in value. A trust may now invest $50,000 in the fund, no more.'

"In conclusion, it is the Board's view that, under the regulation as it now reads, the additional amount, if any, which a trust may invest in a common trust fund is determined by the amount which the trust invested in the participation which it now holds, rather than by the present value of such participation. Accordingly, in the example given by Mr. Wolcott, the additional amount which could be invested would be $25,000 (assuming, of course, that $50,000 does not exceed 10 per cent of the value of the assets of the common trust fund at the time of investment)."

Approved unanimously.

Letter to Mr. Wayne, Vice President of the Federal Reserve Bank of Richmond, reading as follows:
"Reference is made to your letter of January 6, 1950, submitting a certified copy of a resolution adopted by the board of directors of the Pee Dee State Bank, Timmonsville, South Carolina, on December 23, 1949, signifying its intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice usually required.

"In view of the Reserve Bank's favorable recommendation, the Board of Governors waives the usual requirement of six months' notice, as requested. Accordingly, upon surrender of the Federal Reserve Bank stock issued to the Pee Dee State Bank, Timmonsville, South Carolina, the Federal Reserve Bank is authorized to cancel such stock and make appropriate refund thereon.

"It is noted that the bank wishes to continue as an insured bank and that application is being made to the Federal Deposit Insurance Corporation for continuance of deposit insurance coincidental with its withdrawal from the Federal Reserve System. In the circumstances, the bank will have four months from the date of this letter to accomplish termination of its membership (F.R.L.S. #3548).

"Please advise the Board of Governors when cancellation is effected and refund is made. The certificate of membership issued to the bank should also be obtained, if possible, and forwarded to the Board. The State banking authorities should be advised of the bank's proposed withdrawal from membership and when it has been effected."

Approved unanimously.

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

"This refers to your letter of January 5, 1950, with regard to a defalcation occurring at The Peoples Bank, Canton, Ohio, and inquiring whether the Board will require any further information concerning the matter.

"Since it appears that through the efforts of the Federal Bureau of Investigation the employee committing the defalcation appeared before the Federal district court and was sentenced, there would seem to be nothing further required in connection with reporting this violation. It is noted that you have instituted a program of reimpressing the management of State member banks of
"the requirement that they report promptly to the Federal Reserve Bank violations of the criminal provisions of the banking laws of the United States occurring at their banks."

Approved unanimously.

Letter to Mr. Peterson, Assistant Cashier of the Federal Reserve Bank of Minneapolis, reading as follows:

"This refers to your letter of December 19 regarding the instructions for waiver of penalties for deficiencies in reserves of member banks (F.R.L.S. #6120), enclosed with the Board's letter S-1123, dated October 10, 1949.

"Your first assumption is correct, that, whenever a reserve computation period ends on one or more non-business days, those days may be included in the next reserve computation period if that would reduce or eliminate the deficiency in the first period. This transfer of non-business days from one period to the immediately next period may be made even though there is already a deficiency in the second period. In the latter circumstances the deficiency and the resulting penalty might, of course, be waivable under Provision C or E.

"With regard to your second question, the Board has decided to amend Provision A to read as follows:

'When the penalty incurred by a member bank in a reserve computation period is not in excess of $5.00, or when a residual penalty not in excess of $5.00 remains after application of Provision C or D.'

"The new provision is the same as the present one, except that it also permits, as you have suggested, waiver of residual penalties of $5.00 or less.

"Your interpretation of Provision C is correct, that a deficiency in one period, if not in excess of two percent of the member bank's required reserves, may be offset partially or wholly by excess reserves in the immediately following reserve computation period. Thus, if a country member bank has a daily average deficiency of $20,000 in the first half of a given month and excess reserves of $15,000 in the second half of the month, the Federal Reserve Bank may waive the penalty on all but $5,000 of the..."
"deficiency in the first period; if excess reserves during the second half are $20,000 or more, then the Federal Reserve Bank may waive the entire penalty incurred during the first half of the month."

Approved unanimously.

[Signature]
Secretary.

Approved:

[Signature]
Chairman.